

WASTE, FRAUD, ABUSE, AND MISMANAGEMENT

HEARINGS BEFORE THE TASK FORCE ON EDUCATION AND TRAINING OF THE COMMITTEE ON THE BUDGET HOUSE OF REPRESENTATIVES ONE HUNDRED SIXTH CONGRESS SECOND SESSION

HEARINGS HELD IN WASHINGTON, DC: MAY 24 & JUNE 14, 2000

Serial No. 10-3



Printed for the use of the Committee on the Budget

U.S. GOVERNMENT PRINTING OFFICE

WASHINGTON : 2000

64-702cc

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EDUCATION DEPARTMENT FAILS ACCOUNTING 101

WEDNESDAY, MAY 24, 2000

HOUSE OF REPRESENTATIVES,
COMMITTEE ON THE BUDGET,
TASK FORCE ON EDUCATION AND TRAINING,
Washington, DC.

The Task Force met, pursuant to call, at 10:22 a.m. In room 210, Cannon House Office Building, Hon. Peter Hoekstra (chairman of the Task Force) presiding.

Mr. HOEKSTRA. Good morning. The task force will come to order.

Let me just give a little bit of an overview, and then Ms. Rivers has a comment.

Thank you for coming this morning as we take a look at the financial management practices at the Department of Education and the results of the Department's two failed audits.

This is the third time that a number of today's witnesses will be testifying before Congress on these issues. However, it is the first time that the Budget Committee will have the opportunity to hear about the potential, and even documented, fraud, waste and abuse at the Department. While we already know that the Department has been unable to produce a clean audit for fiscal years 1998 and 1999, a few recent incidents illustrate the effects of this financial mismanagement.

Recently, a Bell Atlantic employee pleaded guilty to conspiring with Department of Education employees to steal more than \$1 million in equipment and in false overtime billing. Items were ordered under a Bell Atlantic contract but delivered to the homes of Department employees and their families. These items included computers, telephones, televisions and compact disk players.

That is not all. In return for allowing the Bell Atlantic employees to bill the Department of Education for overtime never performed, these contractors performed personal errands for the Department employee, even driving to Baltimore to get her crab cakes for lunch.

This scheme went on for at least 2 year, in part because the Department of Education does not have the proper management procedures in place to track inventory. In 1985, in an Inspector General report, the Department was criticized for having weak controls over the safeguarding of office equipment and the recording of items received. In November 1994, the IG issued an Investigation Advisory Program Report that described deficiencies in the Department's property management and provided 21 recommendations for improvement. The IG provided follow-up reports in March 1997, October 1997, November 1998, that concluded that the weaknesses

still persisted. So it is not surprising that we see these kinds of difficulties.

This theft ring may only be the tip of the iceberg. According to the Inspector General, of the 139 recommendations made by auditors in the past 5 years, 111 remain open, and only 28 are closed. Who knows what kind of waste or fraud may be occurring in these areas due to the inaction of the Department of Education?

Let's take a close look at some of the other management problems at the Department. For at least 3 consecutive fiscal years, the Department has made duplicative payments to grantees. Last December alone, the Department issued duplicate payments to more than 52 schools totaling more than \$6.7 million.

In one recent academic year, \$177 million in Pell grants were improperly awarded because students failed to meet income requirements. More recently, the Department awarded 39 Jacob Javits scholarships to students who were supposed to be alternates for the award. What was the cost of this mistake? Nearly \$4 million.

The Department of Education has a grantback account that in 1996 contained \$750 million. Very little of this money was legitimately in the account and had been returned to the Department by grantees. The Department has still not been able to document where the money in the grantback account came from and where it is supposed to go.

Is a clean audit an unreasonable goal for a Federal agency? No. In fact, many Federal agencies are able to produce a clean audit year after year. A clean audit and proper financial controls are the first steps toward preventing fraud, waste and abuse. Any business owner will tell you the importance of a clean audit is to maintain the confidence of investors and to prevent stock from being delisted.

Actions have consequences. So does inaction. What I hope to make clear today is that the Department's failure to address its financial management problems can lead directly to fraud, waste and abuse. For at least 15 years the Department failed to address the lack of controls over inventory and now we have documented theft in this area.

We know what needs to be done. The Department of Education must make financial stewardship one of their top priorities. Until it does, the taxpayers' investment in the education of America's youth is not going to reap anything close to its maximum return. Thank you.

Ms. Rivers.

Ms. RIVERS. Thank you, Mr. Chairman. I join you in thanking our speakers for attending today. I am very anxious to hear their views on the long-standing problems at the Department of Education.

I was interested when I saw Ms. Jarmon's testimony that this has gone on for many years and there has been a 10-year effort to reform but we have not made the progress that we would hope. I would hope that we not just hear the problems that exist but also solutions that can be pursued to bring the Department of Education into compliance. Particularly I would be interested in hearing any legislative solutions that have to be put in place in order

to help the Department of Education do what it needs to do. I look forward to your testimony.

Mr. HOEKSTRA. Thank you.

Mr. Clement.

Mr. CLEMENT. Thank you, Mr. Chairman and Ms. Rivers, Mr. Holt, panel. It is a pleasure to have you here today.

These are serious charges and serious allegations. And being a former college president—I was a college president for 4½ years before I was elected to the United States Congress so I worked on education issues for a long, long time. I worked with Secretary Riley on many education issues.

We sure want to correct these problems. I believe in the Department of Education. In many ways, it has served us well, but we surely want to bring about reform. We surely want to operate efficiently. And taxpayers expect us to make sure that every dollar is accounted for and that those that are going to receive help receive the help under the guidelines and restrictions we have. I want to know what the problem is so we can correct it once and for all. Hopefully, now we have turned the corner.

Thank you.

Mr. HOEKSTRA. Mr. Collins, do you have a statement?

Mr. COLLINS. No.

Mr. HOEKSTRA. Mr. Holt.

Mr. HOLT. Thank you, Mr. Chairman.

Of course, we have some responsibility as stewards here; and we want to make sure that taxpayers' money is well spent; and to the extent that there has been waste or mismanagement we want to get to it. But the problem is not so much because it is taxpayers' money. The problem is because it is dealing with our most important undertaking as a society, which is the education of our children. We want to make sure that is done in the best possible way. I do hope that, as this group moves forward and as the witnesses provide us information, the emphasis will not be on fingerpointing but will be on ways that we can provide an efficient, excellent education for all our children.

Mr. HOEKSTRA. Thank you very much.

With us this morning we have Edward Moore, who is the President of Edelman Financial Services, Inc. We have Daniel Murrin, who is a partner with Ernst & Young; Gloria Jarmon and Gary Engel, who are with GAO; and Lorraine Lewis, who is the Inspector General of the Department of Education.

Welcome to each of you today.

**STATEMENT OF EDWARD P. MOORE, CFP, PRESIDENT,
EDELMAN FINANCIAL SERVICES, INC.**

Mr. HOEKSTRA. We will begin with Mr. Moore.

Mr. MOORE. Good morning. I am honored to be appearing before this task force today. It is very encouraging to see that the task force has sought input from someone like me, someone who works every day to help both individual consumers and corporations regarding their personal finances and money management.

As a father of two children enrolled in public elementary schools, I see firsthand the challenges, successes and failures of our public education system at the local level. But I am not here today to re-

view all that faces the Department of Education, there are others here with greater expertise in that area than me.

Instead, I speak to you today as a certified financial planner, one whose primary role is to show American families and businesses how to secure their financial futures. As the President of Edelman Financial Services, Inc., in Fairfax, Virginia, I oversee a planning practice that is perhaps the largest in the Washington, D.C., metropolitan area, and along with our firm's founder and chairman, Ric Edelman, I appear frequently on local and national media to share our knowledge with the consumers from coast to coast. Indeed, consumer education in the field of personal finance is a primary focus of our activities.

And that is what brings me here today. I was asked to give the task force the answer to one fundamental question: Do the finances of a government entity—in this case the Department of Education—bear any similarity to the finances of an individual or corporation? To learn the answer, I will discuss the importance of following the basics of financial planning for both an individual and a corporation.

For an individual or family, the financial planning process involves the following basic, fundamental steps:

First, we help an individual identify their goals and objectives. At what point would they like to retire? What income do they need at that time? Do they want to send their kids to college, buy a home, build a nest egg? We help them identify, clarify and then define what they want for the future.

Next, we help them identify the resources they have available. How are they currently spending their money? What are they saving? Where is that money being invested? Do they have retirement plans with their employers? Are they participating to the maximum? We help them identify what they currently have access to and what they are currently taking advantage of.

Next, we help them direct their actions. As financial planners, we make specific recommendations in all areas of an individual's financial life. For example, how can they maximize the potential that is available to them? How can they protect their family and build toward the future?

Planning and budgeting are keys to financial success, whether for a 10-year-old child with a weekly allowance or corporate America, responsible who not just to one, but to many. The principles are the same, only the magnitude of the process differs.

Managing the finances of a business is equally important. When we are examining companies for our clients to consider as investments, the manner in which it is run financially is one of the key elements of our investigation. If a company has questionable financial records, our clients are told to steer clear of that company.

Although it is not always the case, in the private sector today clean financial records are generally assumed. Companies that are publicly traded on the stock market are required to have their financial records audited annually to assure that they are following generally accepted accounting principles. As long as a company has clean records, we are able to do our analysis, based on the company's strengths and weaknesses, to determine if we feel it is an appropriate investment for our clients.

A recent case in point of a company that did not manage its finances effectively is a Virginia company just outside the Washington Beltway. This company, which has been in the news quite a bit recently, saw its stock price drop from over \$300 a share to under \$25 a share in just the last 2 months. That means if an investor had \$100,000 invested in this company in March, they now have less than \$10,000. The primary reason for the 92 percent drop in that company's stock price was the way in which their books were kept. They did not track their income and expenses in a way that was acceptable to regulators. Tracking finances is one of the most fundamental aspects of running a business, and this company failed miserably. In this case, bad books equals a bad investment.

Does any of this pertain to the Department of Education? Absolutely. As with an individual or corporation, the Department does not have unlimited funding each year, so it must pay close attention to its finances. As a taxpayer, financial adviser and father of two children in elementary school, I think it is reasonable to ask a Federal agency to keep clean and complete records of where its money goes. By keeping clean books and accurate records, the Department and Congress can continue actually evaluating where it is spending its money to help it make better decisions in the future—decisions that will further improve the quality of education that our Nation's children receive. Higher quality education means a better, stronger America.

By carefully managing its money, the Department of Education can deliver maximum benefits to our Nation's children, while spending less money than it otherwise might. Such savings could translate to smaller budgets, which result in less government spending. This can bring about lower taxes for working-class citizens and greater economic prosperity for all Americans. But if the Department of Education is not in control of its spending, if the Department is not concerned with where its money is going, then its effectiveness shrinks, it opens itself up for possible fraud or abuse, with fewer benefits reaching our children. In that case, no one wins.

Thank you again for giving me the honor of speaking with you here today.

Mr. HOEKSTRA. Thank you.

[The prepared statement of Edward Moore follows:]

PREPARED STATEMENT OF EDWARD P. MOORE, CFP, PRESIDENT, EDELMAN FINANCIAL SERVICES, INC.

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- Identify resources available: How are they currently spending their money? What are they saving? Where is that money being invested? Do they have retirement plans with employers? Are they participating to the maximum? We help them identify what they are currently have access to and what they are currently taking advantage of.

- Direct actions: As financial planners, we make specific recommendations in all areas of an individual's financial life; for example, how they can maximize the potential that is available to them, protect their family, and build toward the future.

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Thank you again for giving me the honor of speaking to you here today.

Mr. HOEKSTRA. Mr. Murrin.

**STATEMENT OF DANIEL J. MURRIN, PARTNER, ERNST &
YOUNG LLP**

Mr. MURRIN. My name is Dan Murrin. I am a partner with Ernst & Young LLP and national director of public sector services for that firm. I have been in public accounting for 20 years, with a specialty in the Public Sector—Federal Government.

The Education Task Force of the Committee on the Budget has requested that Ernst & Young testify with respect to our recommendations for improving the financial management at the Department of Education; and our recommendations which were first given on March 1, 2000, before the Committee on Education and the Workforce's Subcommittee on Oversight and Investigations.

The Office of Inspector General, for the Department of Education, engaged Ernst & Young to conduct the audits of the Department's fiscal year 1998 and 1999 financial statements.

My testimony will focus on recommendations for improving financial management at the Department of Education, provide information on areas that may warrant further analysis as well as suggestions for additional work at the Department that may be required.

By way of an overview of our fiscal year 1999 audit reports, and we testified on this on March 1, with respect to the Report of Independent Auditors for the Department of Education for fiscal year 1999, Ernst & Young issued a qualified opinion on four of those statements and disclaimed an opinion on the fifth statement.

Regarding the Report on Internal Control, we detailed four material weaknesses and four reportable conditions. We included a total of 24 recommendations in the Report on Internal Control to assist the Department in addressing its internal control deficiencies.

We had some additional recommendations for improving financial management drawn from those reports and discussed to some extent in our testimony on March 1. The Department has said they are moving forward with preparing interim financial statements. We have recommended that, they have an independent review of those interim financial statements performed.

We have emphasized reconciliations as being a critical aspect of internal control and suggested that they be performed monthly and subject to follow-ups.

The Department has ongoing efforts to identify duplicate payments. We have suggested that an independent review be performed of this process once it has been concluded so that we can identify whether there are any additional controls that should be implemented as a result of these projects. It is our understanding that the Office of Inspector General is also looking at this issue.

We understand that the Department plans to complete a comprehensive physical inventory of its furniture and fixtures and is currently conducting an inventory of its telecommunications and computer equipment. We have suggested that an independent process be involved to review the results of that.

The Department may also benefit from independent confirmations of financial data with grant recipients at the award level—for example, available funds, obligations and cash drawdowns.

The Department may also want to consider ongoing efforts to review the accuracy of data in the National Student Loan Data System.

In addition, in our reports we did make two overarching recommendations. We have recommended that the Department review the current organizational structure to update and more clearly define roles and responsibilities and to ensure that financial reporting objectives established by management are being achieved. Such a review may also include evaluating the recruiting, training and retention of accountants and financial management personnel, which is critically important.

We recommend that the Department develop an implementation plan for replacement of the general ledger software package to ensure that the transition will occur in a timely and documented manner. And, finally, we also recommend that the Department ensure that the new general ledger package will meet its financial reporting needs.

I will be pleased to answer any questions that you may have.
[The prepared statement of Mr. Murrin follows:]

PREPARED STATEMENT OF DANIEL J. MURRIN, PARTNER, ERNST & YOUNG LLP

INTRODUCTION

My name is Daniel J. Murrin. I am the National Director of Public Sector Services for Ernst & Young LLP, a public accounting firm. I have been in public accounting for over 20 years, with a specialty in the Public Sector—Federal Government. The Education Task Force of the Committee on the Budget has requested that Ernst & Young testify with respect to our recommendations for improving the financial management at the Department of Education which were given on March 1, 2000 testimony before the Committee on Education and the Workforce's Subcommittee on Oversight and Investigations.

The Office of Inspector General, for the Department of Education, engaged Ernst & Young to conduct the audits of the Department's fiscal year 1999 and 1998 financial statements.

OVERVIEW OF FISCAL YEAR 1999 AUDIT REPORTS

As you may be aware from our prior testimony, regarding the "Report of Independent Auditors," for the Department of Education for fiscal year 1999, Ernst & Young issued a qualified opinion on four of the five required financial statements and disclaimed an opinion on the fifth statement. The "Report on Internal Control," detailed four material weaknesses and four reportable conditions. We included a total of 24 recommendations in our Report on Internal Control to assist the Department in addressing its internal control deficiencies. Our "Report on Compliance with Laws and Regulations" cited noncompliance with the Federal Financial Management Improvement Act (FFMIA), the Information Technology Management Reform Act (the Clinger-Cohen Act), and the Federal Credit Reform Act.

Our Report on Internal Control documents the following eight reportable conditions, the first four of which were material weaknesses:

- Financial Reporting Needs to Be Strengthened (Repeat Condition¹—Material Weakness)
- Reconciliations Need to Be Improved (Repeat Condition—Material Weakness)
- Improvement of Credit Reform Reporting is Needed (Material Weakness)
- Controls Surrounding Information Systems Need Enhancement (Repeat Condition—Material Weakness)
- Documentation Supporting Obligations, Undelivered Orders and Unobligated Balances Needs to be Improved (Modified Repeat Reportable Condition)
- Communication and Coordination Efforts Need to be Improved for Financial Management

¹ Repeat condition means the issue was also included in the FY 1998 Report on Internal Control.

- Documentation Supporting Accounts Payable, Accrued Liabilities and Expenditures Needs to be Improved (Modified Repeat Reportable Condition)
- Reporting and Monitoring of Property and Equipment Needs to be Improved

The four most serious of these weaknesses were: the accounting system's inability to perform a year-end closing process or produce automated consolidated financial statements; the lack of proper or timely reconciliations of the accounting records; failure to manage its financial operations in accordance with the requirements of the Federal Credit Reform Act of 1990; and deficiencies in controls surrounding information systems.

RECOMMENDATIONS FOR IMPROVING FINANCIAL MANAGEMENT

Pursuant to the Task Force's request, my testimony will focus on Ernst & Young's recommendations for improving financial management at the Department of Education. I will provide information on areas that may warrant further analysis, as well as suggestions for additional work that could be performed concerning the Department's financial management. The items identified below are in addition to or an expansion of procedures that were performed as part of our audit.

Interim financial statements—The Department has informed us that it intends to prepare interim financial statements for fiscal years 2000 and beyond. We recommend that the Department also consider conducting a review of the interim financial statements to provide early identification of departures from generally accepted accounting principles (GAAP), if any, that might impact the year-end financial statements, as well as any other issues that could be addressed on an interim basis. This practice of having the interim financial statements reviewed is followed by publicly held companies. The scope of the annual financial statement audit that we have been engaged to perform does not encompass a review of interim financial statements in accordance with the AICPA Statement on Auditing Standards No. 71, Interim Financial Information.

Reinforce reconciliation efforts—Reconciliations should be performed on a monthly basis with regards to (a) Fund Balance with Treasury, including the grantback account; (b) GAPS to FMSS; (c) budgetary to proprietary accounts; (d) accounts payable and related disbursements-in-transit; (e) suspense accounts; and (f) accounts receivable/guaranty agency reserves. As part of the interim financial statement reviews discussed above, the Department may benefit from having additional independent reviews of these reconciliations to improve the accuracy, completeness and timeliness of the reconciliations.

Study duplicate payment issues—The Department has ongoing efforts to identify potential duplicate payments in the grant programs and the direct loan program in order to assess the need for additional controls to prevent occurrences of this nature in the future. We suggest that an independent review be performed of the process that was utilized by the Department to identify potential duplicates and of any additional controls implemented as a result of these projects. The Office of Inspector General has informed us that they are also looking at this issue.

Inventory of Fixed Assets—The Department plans to complete a comprehensive physical inventory count of all fixed assets, including furniture and fixtures. We understand that the Department is currently conducting an inventory of all computer and telecommunications equipment. We suggest that, upon completion of these physical inventories, an independent review of the inventory results be performed to ensure that the process provided a complete and reliable inventory and to assess the significance of any issues identified as a part of conducting the inventory. The Office of Inspector General has informed us that they are also looking at this issue.

Confirm Grant Data—The Department may benefit from independent confirmations of financial data with grant recipients at the award level (such as available funds, obligations, and cash drawdowns). Confirmations would help ensure that the Department's records are in balance with internal records maintained by the grant recipients.

Perform Ongoing Reviews of the National Student Loan Data System (NSLDS)—The Department may want to consider ongoing efforts to review the accuracy of data in its Student Loan Database. NSLDS is a database which includes loan-level data for all student loans. The data is received from many entities which participate in the loan programs, such as the guaranty agencies. Data is used as the basis for determining the loan liability in the financial statements, and to provide information for management analysis and decisions. Because the accuracy and completeness of this data is important for making informed decisions, we suggest that efforts be focused on ensuring that the database continues to be a complete and reliable source of information.

In addition, in our reports to the Department of Education we identified a number of specific actions that the Department could take to further improve its financial management. Several of the more overarching recommendations are as follows:

Assess Organizational Structure—We recommended that the Department review the current organizational structure to update and more clearly define roles and responsibilities, and to ensure that financial reporting objectives established by management are achieved. Such a review may include evaluating the recruiting, training and retention of accountants and financial management personnel.

Assess Financial System Requirements—We recommended that the Department develop an implementation plan for the replacement of the general ledger software package to ensure the transition will occur in a timely and documented manner. In addition, we recommended that the Department ensure that the new general ledger software package will meet its financial reporting needs. The Department will need to give consideration to both short-term and long-term needs.

Grant Liability Estimation Process—We recommended that the Department develop a formal policy to further refine the methodology for estimating the year-end grant liability accrual. Implementation of a policy should facilitate consistency with reporting of financial information, as well as review by management for adherence to the Department's policy.

STATEMENT OF LORRAINE PRATTE LEWIS, INSPECTOR GENERAL, U.S. DEPARTMENT OF EDUCATION

Ms. LEWIS. Mr. Chairman and members of the task force, I appreciate the opportunity to present testimony to you today.

I will address our work in identifying fraud, waste and abuse at the Department. I will discuss the guilty plea of a Bell Atlantic employee working under a service agreement with the Department of Education, Pell grant fraud, and improper student loan forgiveness. I will also discuss the need for an environment with strong internal controls which are necessary to maintain the integrity of the Department's programs.

We are conducting an investigation of individuals who, for approximately 3 years, made equipment purchases with Federal funds for nonbusiness-related purposes, billed the Department for hours not worked and received goods for personal use. Two individuals have pled guilty to their involvement in the case. The first, Joseph Morgan, pled guilty to one count of receiving stolen property. The second, Robert Sweeney, pled guilty to one count of conspiracy and one count of theft of government property. Much of the following information was reported by the U.S. Attorney's Office for the District of Columbia as part of the plea agreement with Mr. Sweeney.

Mr. Sweeney was an employee of Bell Atlantic who had been assigned full time to the Department to install telephone lines and telephones. Mr. Sweeney and a second Bell Atlantic technician reported to a Telecommunications Specialist in the Office of the Chief Information Officer. The Specialist began asking Mr. Sweeney to order materials under the Bell Atlantic service agreement that were unrelated to official Department business. These items began with additional telephones and answering machines. Mr. Sweeney would deliver the items, which were paid for by the Department, to the Specialist, who would then distribute them to co-workers and family members for personal use.

Over time, the Specialist's requests for items began to include more expensive items. For example a 61-inch television was ordered and delivered to the Specialist's son's house. Eight Gateway computers were picked up by Mr. Sweeney and delivered to the Specialist's house or to locations that she designated.

From 1997 to 1999, the Specialist requested numerous items that were unrelated to the service agreement, including computers, printers, computer software, scanners, cordless telephones, a 61-inch television, Palm Pilots, walkie-talkies, compact disk players and many other items. The total cost of these items to the Department was over \$300,000.

Mr. Sweeney also performed numerous personal tasks for the Telecommunications Specialist. In exchange for that assistance with her personal requests, Mr. Sweeney was permitted to falsely claim overtime hours. It is estimated that between January, 1997, and November, 1999, approximately \$634,000 in unworked hours was fraudulently charged to the Department by Mr. Sweeney and the other Bell Atlantic technician.

Our contractors, Ernst & Young, have identified numerous Department internal control deficiencies in their Report on Internal Control for the fiscal year 1999 financial statement audit. A sound internal control environment provides management with a reasonable but not absolute assurance that assets are safeguarded against loss from unauthorized use or disposition. The lack of a sound internal control environment heightens the risk that the Department will not be able to safeguard its assets and accurately record, process and summarize financial data.

OIG investigations and audits have disclosed patterns of fraud against the Pell grant program. The most common fraud scheme involved ineligible or nonexistent applicants who falsified FAFSAs and other documents to obtain Pell grants for which they or their institutions were not entitled. I have detailed a number of those investigations in my longer statement for the record.

To help combat one of these patterns of Pell grant fraud, the 1998 Higher Education Act Amendments included a provision authorizing the Department, in cooperation with the Treasury Department, to confirm with the IRS key pieces of information on the Federal income tax returns of applicants and their parents. Without specific authorization in the Internal Revenue Code, however, the IRS indicates that it must obtain written taxpayer consent before individual income information may be released to the Department. We recommend that Congress enact any necessary additional legislation to address this matter.

In the interim, the Department just completed the first of two planned test-match studies with the IRS. The Department will use the statistical information from the test match to identify the types of students who are most likely to underreport their income. The Department also intends to use the IRS information to better evaluate the extent of income underreporting and to support its desire to conduct a full-scale data match with the IRS.

OIG audit and investigative work has also identified concerns with the discharge of loans due to disability or death. Since October, 1999, OIG investigative work on fraudulent disability discharges resulted in more than \$1 million in loans being reinstated by the holders of the loans, which is either the Department or the guaranty agency. Again, I have provided some examples in my statement for the record.

In our June, 1999, audit, "Improving the Process for Forgiving Student Loans," we recommended that several steps be taken to

enhance the current discharge determination procedures. The Department modified its disability form to incorporate our recommendations, and OMB approved that form. Also, the Department now requires that a death discharge be based only on an original or certified copy of the death certificate.

In order to identify fraudulent death discharges, we conducted a data match with the Social Security Administration's Death Index to identify persons who received loan discharges based upon death but who do not appear in the Death Index. Working with a sample of these data and with information filed by those who obtained substantial discharges from Sallie Mae and a number of guaranty agencies, our investigators are pursuing leads generated by the match. In the area of disability discharge fraud, we are working with the guaranty agencies to identify potential fraud cases and following up on leads developed from the data.

A key factor in improving accountability and minimizing operational problems within the Department is the implementation of appropriate internal controls. Recently, GAO updated its standards for internal control in government. The GAO standards address the areas of control environment, risk assessment, control activities, communication and monitoring.

Currently, we are reviewing existing internal controls over the procurement of goods and services. We are conducting interviews with procurement personnel and senior managers in each principal office within the Department and performing transaction testing to verify the Department's internal control procedures. To date, we have found internal control deficiencies in the Department's use of the government purchase card and third-party checks. At the completion of our review, we will have delivered an individual report to each principal office and a report containing summary recommendations to the Department.

Ultimately, the design and implementation of any internal control must be based on an analysis of costs and benefits. Even well-designed and implemented internal controls cannot provide absolute assurance against fraud, waste, and abuse. There always will be factors such as human mistakes and acts of collusion that will be outside the control or influence of management. That is why we need to remain vigilant and maintain a credible deterrence through, among other things, a regular program of management reviews, an active hotline function, and vigorous audit and investigative operations.

I am happy to answer any questions that you may have.

Mr. HOEKSTRA. Thank you.

[The prepared statement of Ms. Lewis follows:]

PREPARED STATEMENT OF LORRAINE LEWIS, INSPECTOR GENERAL, U.S. DEPARTMENT OF EDUCATION

Good morning, Mr. Chairman and members of the Task Force. I appreciate the opportunity to present testimony to you today. I will address our work in identifying waste, fraud and abuse at the Department of Education. Specifically, I will discuss the recent guilty plea of a Bell Atlantic employee working under a service agreement with the Department of Education, Pell grant fraud and improper student loan forgiveness. I will also talk about the need for an environment with strong internal controls, which are necessary to maintain the integrity of our Education programs.

INVENTORY CONTROL CASE

We are conducting an investigation of individuals who, for approximately 3 years, made equipment purchases with Federal funds for non-business related purposes, billed the Department for hours not worked, and received goods for personal use. At present, two individuals have pled guilty to their involvement in the case. The first, Joseph Dennis Morgan, pled guilty to one count of receiving stolen property. Mr. Morgan illegally received approximately \$14,000 in electronic equipment since 1998. The second individual, Robert J. Sweeney, pled guilty to one count of conspiracy and one count of theft of government property. Much of the following information was reported by the U.S. Attorney's Office for the District of Columbia, as part of the plea agreement for Mr. Sweeney.

Mr. Sweeney was an employee of Bell Atlantic who had been assigned full-time to the Department to install telephone lines and telephones. Mr. Sweeney and a second Bell Atlantic technician reported to a Telecommunications Specialist in the Department's Office of the Chief Information Officer. Approximately 3 years ago, the Department's Telecommunications Specialist began asking Mr. Sweeney to order materials under the Bell Atlantic service agreement that were unrelated to official Department business. These items began with additional telephones and answering machines. Mr. Sweeney would deliver the items, which were paid for by the Department, to the Telecommunications Specialist, who would then distribute them to co-workers and family members for personal use.

Over time, the Telecommunications Specialist's requests escalated and began to include more expensive items. For example, a 61-inch television was ordered under the Bell Atlantic service agreement and delivered by Mr. Sweeney and another Department employee to the Telecommunications Specialist's son's house. Additionally, eight Gateway computers ordered from Bell Atlantic were picked up by Mr. Sweeney and delivered to the Telecommunications Specialist's house or to locations that she designated.

Overall, from 1997 through 1999, the Telecommunications Specialist requested numerous items from Bell Atlantic that were unrelated to the service agreement, including computers, printers, computer software, scanners, cordless telephones, a 61-inch television, Palm Pilots, walkie-talkies, compact disc players, and many other items. The total cost of these items to the Department was over \$300,000.

Mr. Sweeney also performed numerous personal tasks for the Telecommunications Specialist.

In exchange for Mr. Sweeney's assistance with the Telecommunications Specialist's personal requests, Mr. Sweeney was permitted to falsely claim overtime hours. For example, Mr. Sweeney was permitted to turn in time sheets while he was on vacation showing that he had worked his regular schedule as well as overtime hours. It is estimated that, between January 1, 1997 and November 30, 1999, approximately \$634,000 in unworked hours was fraudulently charged to the Department by Mr. Sweeney and the other Bell Atlantic technician.

Our contractors, Ernst & Young, identified numerous Department internal control deficiencies in their "Report on Internal Control" for the fiscal year 1999 financial statement audit. A sound internal control environment provides management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition. The lack of a sound internal control environment heightens the risk that the Department will not be able to safeguard its assets and accurately record, process and summarize financial data.

FEDERAL PELL GRANT PROGRAM FRAUD

OIG investigations and audits have disclosed patterns of fraud against the Pell grant program. The most common fraud scheme involved ineligible or non-existent applicants who falsified Free Applications for Federal Student Aid (FAFSAs) and other documents to obtain Pell grants for which they or their institutions were not entitled. For example:

- In October 1999, four New York men were sentenced for their roles in a Pell grant fraud scheme. The defendants were convicted on an indictment charging conspiracy, program fraud, false statements, wire fraud, mail fraud and tax fraud in connection with postsecondary programs that they falsely claimed to be administering. Judge Barbara Jones noted that the serious and sophisticated long-term fraud committed against the Department warranted substantial periods of incarceration and also ordered the men to make restitution of \$11 million to the Department. Judge Jones stated that the \$11 million loss to the Department's Pell grant program was a very conservative estimate since it related to losses associated with only one of the fraudulent educational programs administered by the defendants. The defendants were also charged with and convicted of defrauding the Small Business Admin-

istration and the “Section 8” rental subsidy program of the Department of Housing and Urban Development.

- On February 28, 2000, the Director of the Orange, California, branch campus of Travel and Trade Career Institute was sentenced to 5 months in jail, 5 months confinement in a community halfway house, \$83,000 restitution, \$50 special assessment, and 3 years supervised release. The Director conducted a scheme in which he drew down approximately \$83,000 in Federal Pell grants on behalf of students that did not exist. He used the money for his own personal gain and miscellaneous school expenses.

- On April 18, 2000, a Federal Grand Jury in the Northern District of Illinois returned indictments against three former school officials of the now defunct American Career Training school in Chicago, Illinois. The three individuals were indicted on conspiracy and financial aid fraud for falsifying student eligibility documents that made ineligible students appear to be eligible to receive Pell grant funds during 1993 through 1996. They received in excess of \$250,000 in Pell grant funds. The school officials created GED certificates, falsified Ability-to-Benefit test results, created Internal Revenue Service documents and created fraudulent letters from lenders and the U.S. Department of Education’s Debt Collection Service.

- On April 26, 2000, the Director of the PSC School for Careers was arrested based upon allegations that she engaged in the submission of false claims for Pell grants and New York State Tuition Assistance Program grants. The criminal complaint alleges that the Director instructed school employees to create fictitious attendance records.

- On May 1, 2000, a former school owner, the school owner’s daughter and a former instructor pled guilty to conspiring to steal and misapply more than \$1.4 million in Federal Pell grant funds. The funds were fraudulently obtained by forging and creating false documents and submitting fraudulent grant applications to the Department of Education for nonexistent or noneligible students. The three defendants used some of the funds for student operations and converted the rest to their own personal use, including the purchase of jewelry, real estate, furniture and an automobile.

- On July 15, 1998, a self-employed financial aid consultant was sentenced on one count of fraud against the Department, was ordered to serve 21 months in Federal prison and then placed on 2 years of supervised release. He was also ordered to pay restitution in the amount of \$5,000 plus an assessment of \$50. The consultant offered a fee to assist parents and students with their applications for Title IV funds to attend postsecondary institutions. The investigation was initiated based on information from a confidential informant who alleged that the consultant falsified various Federal financial aid documents, including tax returns, to assist parents and students in obtaining Title IV funds. A preliminary review of 1,200 seized customer files revealed that the consultant had approximately 700 parent/student files covering a period of 5 years. His account ledgers for 1995 reflected an income of \$51,188 based on 228 separate customer entries. Included in the seized customer files were completed Free Applications for Federal Student Aid, Student Aid Reports, tax forms and fraudulent tax forms prepared in the name of the consultant’s clients. A preliminary review of several files revealed that clients’ incomes were lowered on numerous FAFSAs and tax forms. These alterations had the effect of increasing the students’ chances of receiving Federal financial aid. Another finding of the file review revealed that numerous student files reflected that some students were listed as orphans or wards of the court. This caused the students to be considered independent, which substantially increased their chance of receiving financial aid. The consultant usually charged a fee of 10 percent of a Pell grant, or approximately \$230, for his services.

- On November 30, 1999, a student at Mid-State College was sentenced for her role in defrauding the Pell grant and Federal Family Education Loan programs. She was sentenced to 6 months incarceration to be followed by a 3-year period of supervised probation, ordered to make \$6,062 in restitution to the Department and pay a \$900 fine. The student made multiple false statements regarding her marital status and her husband’s income on her Free Application for Federal Student Aid.

- On March 15, 2000, a student at Pacific Lutheran University was indicted for allegedly falsifying financial aid applications to receive Pell grants. She also allegedly falsified information on Social Security applications to receive Supplemental Security Income (SSI) benefits. Her scheme involved falsifying her marital status as “separated” to avoid having to report her spouse’s income on the applications. Our investigation found evidence that she was living with her spouse during the entire period she received SSI benefits and student financial aid benefits. The total amount of fraud was \$68,475.

To help combat one of these patterns of Pell grant fraud, the Higher Education Act (HEA) Amendments of 1998 (P.L. 105-244) included a provision authorizing the Department, in cooperation with the Treasury Department, to confirm with the Internal Revenue Service (IRS) key pieces of information on the Federal income tax returns of applicants and their parents. Without specific authorization in the Internal Revenue Code, however, the IRS indicates that it must obtain written taxpayer consent before individual income information may be released to the Department. We recommend that the Congress enact any necessary additional legislation to address this matter.

In the interim, the Department just completed the first of two planned test-match studies with the IRS. The Department will use the statistical information from the test match to identify the types of students who are most likely to under-report their income. The Department also intends to use the IRS information to better evaluate the extent of income under-reporting and to support its desire to conduct a full-scale data match with the IRS.

IMPROPER STUDENT LOAN FORGIVENESS

OIG audit and investigative work has also identified concerns with the discharge of loans due to disability or death. Since October 1999, OIG investigative work on fraudulent disability discharges resulted in more than \$1,000,000 in loans being reinstated by the holders of the loans, which is either the Department or a guaranty agency. For example:

- On January 13, 2000, an individual was sentenced to 6 months home detention, 5 years probation and was ordered to pay \$37,743 in restitution. The individual had submitted a fraudulent disability form to the Department of Education stating that he suffered from chronic paranoid schizophrenia and that he had a poor prognosis to be gainfully employed. As a result, he was relieved of his obligation to repay five student loans.

- On May 8, 2000, a doctor pled guilty to charges of student loan fraud and health care fraud. The next day, his brother, who is also a doctor, pled guilty to charges of misprision of the felonies of student loan fraud and health care fraud. Both doctors agreed to make restitution for the total amount obtained through their fraud schemes. The doctors mailed fraudulent total and permanent disability claims to several Federal student loan guaranty agencies and lenders to have their medical student loan obligations discharged. One doctor had two student loans discharged, totaling \$32,548, including \$4,366 refunded directly to him. The other doctor had two student loans discharged totaling \$11,992, including \$4,098 refunded directly to him. A third loan discharge for the second doctor in the amount of approximately \$15,000 was prevented as a result of this investigation. Our investigation revealed that the first brother submitted false disability claims stating that he and his brother were house confined and/or wheelchair-bound. However, OIG agents observed the brothers riding bicycles and swimming at a beach. Our investigation also revealed that the disability claims were certified by a non-existent physician and were often accompanied by letters from a non-existent attorney.

In our June 1999 audit entitled Improving the Process for Forgiving Student Loans, which was requested by the Department, we recommended that several steps be taken to enhance the current discharge determination procedures. These include revising the disability form to include, at a minimum, the doctor's professional license number and office telephone number, and requiring certified copies of death certificates. The Department modified its disability form to incorporate our recommendations and OMB approved the form. Also, the Department now requires that a death discharge be based only on an original or certified copy of the death certificate.

Our office continues to pursue this matter. In order to identify fraudulent death discharges, we conducted a data match with the Social Security Administration's Death Index to identify persons who received loan discharges based upon death, but who do not appear in the Social Security Death Index. Working with a sample of these data and with information filed by those who obtained substantial discharges from Sallie Mae and a number of guaranty agencies, our investigators are pursuing leads generated by the match. In the area of disability discharge fraud, we are working with the guaranty agencies to identify potential fraud cases and following up on leads developed from the data.

INTERNAL CONTROLS

A key factor in improving accountability and minimizing operational problems within the Department is the implementation of appropriate internal controls. Recently, the General Accounting Office (GAO) updated its standards for internal con-

trol in government. The standards provide a framework for establishing and maintaining internal control and for identifying and addressing management challenges and areas susceptible to fraud, waste and abuse. The GAO standards address the areas of control environment, risk assessment, control activities, communication and monitoring.

Currently, we are reviewing existing internal controls over the procurement of goods and services. Our review is based on the GAO standards. We are conducting interviews with procurement personnel and senior managers in each principal office within the Department and performing transaction testing to verify the Department's internal control procedures. To date, we have found internal control deficiencies in the Department's use of the government purchase card and third party checks. At the completion of our review, we will have delivered an individual report to each principal office and a report containing summary recommendations to the Department.

CONCLUSION

Ultimately, the design and implementation of any internal control must be based on an analysis of costs and benefits. Even well designed and implemented internal controls cannot provide absolute assurance against fraud, waste and abuse. There always will be factors such as human mistakes and acts of collusion that will be outside the control or influence of management. That is why we need to remain vigilant and maintain a credible deterrence through, among other things, a regular program of management reviews, an active hotline function, and vigorous audit and investigative operations.

This concludes my prepared testimony. I am happy to answer any questions you or other members of the Task Force may have on these issues.

Mr. Hoekstra. Ms. Jarmon and Mr. Engel.

STATEMENT OF GLORIA L. JARMON, DIRECTOR, HEALTH, EDUCATION, AND HUMAN SERVICES, ACCOUNTING AND FINANCIAL MANAGEMENT ISSUES; GARY T. ENGEL, ASSOCIATE DIRECTOR, GOVERNMENTWIDE ACCOUNTING AND FINANCIAL MANAGEMENT ISSUES, U.S. GENERAL ACCOUNTING OFFICE

Ms. JARMON. We are pleased to be here today to talk about the financial management at the Department of Education.

With me today is Gary Engel, the Associate Director responsible for GAO's work on Education's grantback account.

We will focus on three issues: first, the financial statement audit results for fiscal year 1999; secondly, the potential that the reported weaknesses have to create fraud, waste and abuse; and, third, the results of our review of the Department's grantback account. Much of our testimony today reflects our March 1 testimony on these issues.

The bottom line on Education's financial audit results is that Education still faces severe internal control and financial management systems weaknesses. These weaknesses have been very similar from year to year, starting with Education's first agency-wide audit for fiscal year 1995. They make it extremely difficult for Education to give timely, reliable financial information to decision-makers both inside and outside the agency.

Education's financial staff and its contractors worked very hard to put together their fiscal year 1999 statements, and the auditors' opinion on these statements improved over fiscal year 1998. In addition, the fiscal year 1999 audit was the first time that the Department's statements were issued on time.

However, as part of the audit, the Department's auditors looked at Education's internal controls and reported four material weaknesses. They are weaknesses in the financial reporting process,

weaknesses in reconciling financial accounting records, weaknesses in controls over information systems, and weaknesses in accounting for certain loan transactions.

In addition to its continued internal control problems, Education also failed to fully comply with three laws in fiscal year 1999. They are, first, the Federal Financial Management Improvement Act; secondly, the Clinger-Cohen Act; and, third, the Federal Credit Reform Act.

The internal control weaknesses in the auditor's report need to be addressed to reduce the potential for fraud, waste and abuse at Education. For example, the information systems control weaknesses could increase the risk of unauthorized access or disruption in services and make Education's sensitive grant and loan data vulnerable to inadvertent or deliberate misuse, fraudulent use, improper disclosure or destruction. These types of vulnerabilities were discussed in more detail in the report issued by the Department's IG in late February.

In addition, Ms. Lewis's statement today shows that the lack of a sound internal control environment heightens the risk that the Department will not be able to safeguard its assets and accurately record, process and summarize financial data.

Finally, regarding the grantback account, which is part of the Education's Fund Balance with Treasury, its auditors reported that Education could not readily say where and to which appropriations the assets funds belonged.

As you know, we recently completed our review of this account and found that, although it was established for grantback activities, Education also used it as an suspense account for hundreds of million of dollars of activity related to grant reconciliation efforts. We found that Education could not provide adequate documentation to support the validity of certain adjustments related to the reconciliation efforts and other activity in the grantback account.

For those transactions for which Education provided adequate documentation to enable us to conclude that such transactions were valid, we did not identify identifications of fraud. However, given the significant number of transactions for which we were not provided adequate support and that we did not perform a fraud audit, we cannot provide assurance that fraud has not taken place.

As a result of financial management systems deficiencies, inadequate systems of financial control and manual internal control weaknesses, which we and other auditors identified, there is increased risk of fraud, waste and mismanagement of grant funds, as well as increased risk of noncompliance with the requirements of the Anti-Deficiency Act.

In closing, we would like to stress that the weaknesses identified by our grantback work and by Education's auditors as part of the financial audit are serious financial management weaknesses, and it is critical that Education continue to work hard to resolve these weaknesses. Achieving all aspects of a strategic objective partly depends on reliable financial management information and effective internal controls.

Mr. Chairman, this concludes my statement. We would be happy to answer any questions from you or any other members of the task force.

Mr. HOEKSTRA. Thank you very much.

[The prepared statement of Ms. Jarmon and Mr. Engel follows:]

PREPARED STATEMENTS OF GLORIA L. JARMON, DIRECTOR, HEALTH, EDUCATION, AND HUMAN SERVICES, ACCOUNTING AND FINANCIAL MANAGEMENT ISSUES; GARY T. ENGEL, ASSOCIATE DIRECTOR, GOVERNMENTWIDE ACCOUNTING AND FINANCIAL MANAGEMENT ISSUES, U.S. GENERAL ACCOUNTING OFFICE

Mr. Chairman and members of the Task Force, we are pleased to be here today to discuss first, the Department of Education's fiscal year 1999 financial audit results¹ in the context of related work we have performed, second, the relationship between the audit findings and the potential for waste, fraud, and abuse, and third, the results of our review of the Department's grantback account. Much of the testimony today reflects our March 1, 2000, testimony on these issues.²

The Department's financial activity is important to the Federal Government because Education is the primary agency responsible for overseeing the more than \$75 billion annual Federal investment in support of educational programs for U.S. citizens and eligible noncitizens. The Department is also responsible for collecting about \$175 billion owed by students. In fiscal year 1999, more than 8.1 million students received over \$53 billion in Federal student financial aid through programs administered by Education.

The Department's stewardship over these assets has been under question as the agency has experienced persistent financial management weaknesses. Beginning with its first agencywide financial audit effort in fiscal year 1995,³ Education's auditors have each year reported largely the same serious internal control weaknesses, which have affected the Department's ability to provide reliable financial information to decision makers both inside and outside the agency.

BACKGROUND

Federal decision makers need reliable and timely financial management information to ensure adequate accountability, manage for results, and make timely and well-informed decisions. However, historically, such financial management information has not been available across the government. Agency IG reports, independent public accountants' reports, and our own work have identified persistent limitations in the availability of quality financial data for decision making. Audits have shown that Federal financial management is in serious disrepair, which results in incorrect financial information being provided to the Congress and the administration. Without reliable financial information, government leaders do not have the full facts necessary to make investments of scarce resources or direct programs. Creating a government that runs more efficiently and effectively has been a public concern for decades.

Over the past 10 years, dramatic changes have occurred in Federal financial management in response to the most comprehensive management reform legislation of the past 40 years. The combination of reforms ushered in by (1) the Chief Financial Officers (CFO) Act of 1990, (2) the Government Management Reform Act of 1994, (3) the Federal Financial Management Improvement Act (FFMIA) of 1996, (4) the Government Performance and Results Act (GPRA) of 1993, and (5) the Clinger-Cohen Act of 1996 will, if successfully implemented, provide the necessary foundation to run an effective, results-oriented government. Efforts to continue to build the foundation for generating accurate financial information through lasting financial management reform are essential. Only by generating reliable and useful information can the government ensure adequate accountability to taxpayers, manage for results, and help decision makers make timely, well-informed judgments.

Education's fiscal year 1999 audit was conducted by Ernst & Young LLP, independent auditors contracted for by the Education Inspector General. We reviewed the independent auditors' reports and workpapers. We shared a draft of this state-

¹Department of Education, Fiscal Year 1999 Consolidated Financial Statements, Ernst & Young LLP, February 2000.

²Financial Management: Education Faces Challenges in Achieving Financial Management Reform (GAO/T-AIMD-00-106, March 1, 2000).

³For fiscal year 1995, a year before the Government Management Reform Act (GMRA) requirements became effective, the Department's Inspector General (IG) hired a contractor to perform its first agencywide financial audit.

ment with Education officials, who provided technical comments. We have incorporated their comments where appropriate. Our work was conducted in accordance with generally accepted government auditing standards.

FISCAL YEAR 1999 AUDIT RESULTS

The Office of Management and Budget's (OMB) implementation guidance for audited financial statements requires the 24 CFO Act agencies to receive three reports from their auditors annually: first, an opinion or report on the agencies' financial statements, second, a report on the agencies' internal controls, and third, a report on the agencies' compliance with laws and regulations. We recently reported⁴ that 13 of the 24 CFO Act agencies received "clean" or unqualified opinions on their fiscal year 1999 financial statements.⁵ The Department of Education did not receive such an opinion because of its financial management weaknesses.

As reported in December,⁶ and again in March,⁷ the Department issued its fiscal year 1998 financial statements over 8 months late and was one of six CFO Act agencies that received disclaimers—meaning that the auditors were unable to express an opinion on their financial statements for that fiscal year.⁸ Pervasive weaknesses in the design and operation of Education's financial management systems, accounting procedures, documentation, recordkeeping, and internal controls, including computer security controls, prevented Education from reliably reporting on the results of its operations for fiscal year 1998.

REPORT ON THE FINANCIAL STATEMENTS

While Education's financial staff and its contractors worked very hard to prepare Education's fiscal year 1999 financial statements before the March 1, 2000, deadline, and the auditors' opinion on the financial statements improved over that of fiscal year 1998, serious internal control and financial management systems weaknesses continued to plague the agency. For fiscal year 1999, Education made significant efforts to work around these weaknesses and produce financial statements. These efforts enabled its auditors to issue qualified opinions⁹ on four of its five required financial statements and a disclaimer on the fifth statement. Its auditors' qualified opinion states that except for the effect of the matters to which the qualification relates, the financial statements present fairly, in all material respects, financial position, net costs, changes in net position, and budgetary resources in conformity with generally accepted accounting principles. The auditors stated the following reasons or matters for their qualification:

- The Department had significant systems weaknesses during fiscal year 1999 affecting its financial management systems. The new accounting system, implemented in fiscal year 1998, had several limitations, including an inability to perform a year-end closing process or produce automated consolidated financial statements. Through its efforts and those of its contractors, Education was able to partially compensate for, but did not correct, certain aspects of the material weaknesses in its financial reporting process. In addition, during fiscal year 1999, Education experienced significant turnover of financial management staff, which also contributed to the overall weakness in financial reporting.
- Education was unable to provide adequate support for about \$800 million reported in the September 30, 1999, net position balance in its financial statements, and the auditors were unable to perform other audit procedures to satisfy themselves that this amount was correct.

⁴Letter to the Congress highlighting our conclusions on the Fiscal Year 1999 Financial Report of the United States Government (GAO/AIMD-00-131, March 31, 2000).

⁵As of May 15, 2000, the Department of State had not issued its audit report. Since our last report, the Department of Interior's (DOI) Office of Inspector General issued an unqualified opinion on DOI's fiscal year 1999 financial statements.

⁶Financial Management: Financial Management Weaknesses at the Department of Education (GAO/T-AIMD-00-50, December 6, 1999).

⁷Financial Management: Education Faces Challenges in Achieving Financial Management Reform (GAO/T-AIMD-00-106, March 1, 2000).

⁸In addition to the 6 agencies that received disclaimers in fiscal year 1998, 4 agencies received qualified opinions, 2 agencies received mixed opinions, and 12 agencies received unqualified or "clean" opinions.

⁹Such an opinion is expressed when first, there is a lack of sufficient competent evidential matter or there are restrictions on the scope of the audit that have led the auditor to conclude that he or she cannot express an unqualified opinion and he or she has concluded not to disclaim an opinion or second, the auditor believes, on the basis of his or her audit, that the financial statements contain a departure from generally accepted accounting principles, the effect of which is material, and he or she has concluded not to express an adverse opinion.

- Education processed many transactions from prior fiscal years as fiscal year 1999 transactions and manually adjusted its records in an effort to reflect the transactions in the proper period; however, the auditors could not determine if these adjustments for certain costs and obligations were correct.

- The auditors were unable to determine whether beginning balances for accounts payable and related accruals were accurate.

In addition, as in the prior year, the auditors did not issue an opinion (referred to as a disclaimer of an opinion) on the Department's Statement of Financing. The Statement of Financing provides a reconciliation or "translation" from the budget to the financial statements. The statement is intended to help those who work with the budget to understand the financial statements and the cost information they provide. The auditors stated that the reason for this disclaimer was that the Department did not perform adequate reconciliations and present support for amounts on the Statement of Financing in a timely manner.

To the extent that Education was able to improve the opinion it received on its financial statements for fiscal year 1999, it was generally the result of first, time-consuming manual procedures, second, various automated tools to "work around" the system's inability to close the books and generate financial statements, and third, significant reliance on external consultants to assist in the preparation of additional reconciliations and the financial statements. This approach does not produce the timely and reliable financial and performance information Education needs for decision making on an ongoing basis, which is the desired result of the CFO Act.

REPORT ON INTERNAL CONTROLS

The Department also receives annually from its auditors a report on internal controls. This report is significant for highlighting the agency's internal control weaknesses that increase its risk of mismanagement that can sometimes result in waste, fraud, and abuse. In this report for fiscal year 1999, the Department's auditors reported four material¹⁰ internal control weaknesses—three continuing from fiscal year 1998 and one additional one for fiscal year 1999—and that long-standing internal control weaknesses persist.

The specific material internal control weaknesses cited by the independent auditors for fiscal year 1999 were first, weaknesses in the financial reporting process, second, inadequate reconciliations of financial accounting records, and third, inadequate controls over information systems. The independent auditors also identified a new material internal control weakness related to accounting for certain loan transactions. Summaries of the material internal control weaknesses follow:

- As in prior years, Education did not have adequate internal controls over its financial reporting process. Its general ledger system was not able to perform an automated year-end closing process and directly produce consolidated financial statements as would normally be expected from such systems. Because of these weaknesses, Education had to resort to a costly, labor-intensive, and time-consuming process involving manual and automated procedures to prepare financial statements for fiscal year 1999. In addition, Education had to rely heavily on contractor services to help perform reconciliations among the various data sources used. In one instance, Education reported a balance of approximately \$7.5 billion for its cumulative results of operations. However, the majority of this amount, which pertains to the Federal Family Education Loan Program (FFELP), should have been reported as a payable to Treasury rather than as cumulative results of operations. As a result of the independent auditors' work, an adjustment was made to reclassify the \$7.5 billion to the proper account. When such errors occur and are not detected by the Department's controls, there are increased risks that the Department could retain funds inappropriately that should be returned to Treasury.

- Education again did not properly or promptly reconcile its financial accounting records during fiscal year 1999 and could not provide sufficient documentation to support some of its financial transactions. Weaknesses in the Department's internal controls over the reconciliation process prevented timely detection and correction of

¹⁰A material internal control weakness is a reportable condition that precludes the entity's internal controls from providing reasonable assurance that material misstatements in the financial statements or material noncompliance with applicable laws or regulations will be prevented or detected on a timely basis. In addition to these material internal control weaknesses, the independent auditors also reported four reportable conditions. Reportable conditions are matters coming to the auditors' attention that, in their judgment, should be communicated because they represent significant deficiencies in the design or operation of internal controls that could adversely affect the organization's ability to meet the objectives of reliable financial reporting and compliance with applicable laws and regulations.

errors in its underlying accounting records. In some instances, Education adjusted its general ledger to reflect the balance per the subsidiary records, without sufficiently researching the cause for differences. Also, as indicated in prior audits, Education has not been able to identify and resolve differences between its accounting records and cash transactions reported by the Treasury. For example, for fiscal year 1999, Education adjusted its Fund Balance with Treasury, due to a difference between its general ledger and the Treasury, by a net amount of about \$244 million. Reconciling agencies' accounting records with relevant Treasury records is required by Treasury policy and is analogous to individuals reconciling their checkbooks to monthly bank statements.

- During fiscal year 1999, Education did not properly account for its funds disbursed under FFELP. Specifically, it did not return about \$2.7 billion in net collections specific to its liquidating account to Treasury as required by the Credit Reform Act of 1990. The liquidating account is used to record transactions for loans originated prior to fiscal year 1992. Any unobligated balances in this account at fiscal year end are unavailable for obligations in subsequent fiscal years and must be transferred to the general fund. Further, Education did not sufficiently analyze the balances reflected on the financial statements to ensure that the FFELP balances agreed with relevant balances in the Department's budgetary accounts. The auditors stated that this situation resulted in an unexplained difference of about \$700 million between the FFELP Fund Balance with Treasury account and related budgetary accounts as of September 30, 1999. By not properly accounting for and analyzing its FFELP transactions as required by the Federal Credit Reform Act of 1990, Education cannot be assured that its financial or budgetary reports are accurate.

- Education had information systems control deficiencies in first, implementing user management controls, such as procedures for requesting, authorizing, and revalidating access to computing resources, second, monitoring and reviewing access to sensitive computer resources, third, documenting the approach and methodology for the design and maintenance of its information technology architecture, and fourth, developing and testing a comprehensive disaster recovery plan to ensure the continuity of critical system operations in the event of disaster. The Department places significant reliance on its financial management systems to perform basic functions, such as making payments to grantees and maintaining budget controls. Consequently, continued weaknesses in information systems controls increase the risk of unauthorized access or disruption in services and make Education's sensitive grant and loan data vulnerable to inadvertent or deliberate misuse, fraudulent use, improper disclosure, or destruction, which could occur without being detected.

Our work in this area has shown that other agencies have improved their financial audit report results but are also facing material internal control weaknesses. A number of other agencies have focused their efforts primarily on trying to develop short-term stop-gap measures designed to produce year-end balances rather than on the fundamental solutions that are needed to address the management challenges they face. As a result, these agencies continue to experience pervasive material weaknesses in the design and operation of their financial management and related operational systems, accounting procedures, documentation, recordkeeping, and internal controls, including computer security controls. Consequently, these agencies rely on costly, time-consuming ad hoc procedures to determine year-end balances. This approach does not produce the timely and reliable financial and performance information needed for decision making on an ongoing basis. This approach is also inherently incapable of addressing the underlying financial management and operational issues that adversely affect these agencies' ability to fulfill their missions.

REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS

The third report that the auditors issue annually is a report on agency compliance with laws and regulations. Specifically, the Department's auditors reported that it was not in full compliance with three laws as noted below.

- For fiscal year 1999, the independent auditors found that Education was again not in compliance with FFMA because it lacked adequate, integrated financial management systems, reports, and oversight to prepare timely and accurate financial statements. The Department was 1 of 21 CFO Act agencies whose financial systems did not comply with the requirements of FFMA in fiscal year 1998. Because many agencies have significant financial management systems weaknesses, these results did not change significantly in fiscal year 1999–2000 of 23¹¹ agencies' systems did not comply with FFMA. However, it is imperative that these problems be resolved so that agencies can produce needed financial information on a day-to-day

¹¹ As of May 15, 2000, the Department of State had not issued its audit report.

basis in a timely and accurate manner. FFMIA requires that agency financial management systems substantially comply with first, Federal financial management systems requirements,¹² second, Federal accounting standards, and third, the U.S. Government Standard General Ledger¹³ at the transaction level. We are working with OMB and the agencies to evaluate their progress in resolving these significant weaknesses.

- The Department had neither fully implemented a capital planning and investment process nor performed an assessment of the information resource management knowledge and skills of agency personnel, including a plan to correct identified deficiencies, as required by the Clinger-Cohen Act of 1996. A key goal of the Clinger-Cohen Act is that agencies should have processes and information in place to help ensure that information technology (IT) projects are being implemented at acceptable costs and within reasonable and expected time frames and that they are contributing to tangible, observable improvements in mission performance. By not fully implementing the plans called for under the act, Education was not maximizing the value and assessing and managing the risks of its IT investments.

- The Department did not transfer its excess funds related to FFELP, specifically the \$2.7 billion of net collections previously mentioned, to Treasury as required by the Federal Credit Reform Act of 1990.

POTENTIAL FOR FRAUD, WASTE, AND ABUSE

Education continues to be plagued by serious internal control and system deficiencies that hinder its ability to achieve lasting financial management improvements. The internal control weaknesses discussed above and in more detail in the auditors' report need to be addressed to reduce the potential for waste, fraud, and abuse in the Department. Some of the vulnerabilities identified in the audit report include weaknesses in the financial reporting process, inadequate reconciliations of financial accounting records, information systems weaknesses, and property management weaknesses. Specific examples of vulnerabilities related to these weaknesses follow:

- The material internal control weakness related to financial reporting highlights the fact that managers do not receive accurate and timely financial information, such as information on disbursements made and amounts collected, that could be used to identify unusual activity and other anomalies.

- Some of the known duplicate payments mentioned by the auditors in their report on internal controls could have been identified earlier if proper reconciliations had been performed. The auditors stated that the Department has procedures in place that should detect duplicate payments and correct them within a reasonable time frame. We have not reviewed these procedures.

- The auditors stated that because the Department has not developed formal policies and procedures to reconcile grant expenditures between its payments system and its general ledger system, there is increased risk that material errors or irregularities could occur and not be detected on a timely basis. This is significant because the volume of grant transactions is over \$30 billion per year.

- The information systems weaknesses highlight some of the computer security vulnerabilities, such as the lack of an effective process to monitor security violations on all critical systems of the Department. Information systems control weaknesses increase the risk of unauthorized access or disruption in services and make Education's sensitive grant and loan data vulnerable to inadvertent or deliberate misuse, fraudulent use, improper disclosure, or destruction, which could occur without being detected. A report issued by the Department's Inspector General in February¹⁴ emphasizes the need for the Department to focus on addressing its computer security vulnerabilities. In addition, earlier this year, the White House recognized the importance of strengthening the nation's defenses against threats to public and private sector information systems that are critical to the country's economic and social welfare when it issued its National Plan for Information Systems Protection.¹⁵ In the aftermath of the recent attack by the "ILOVEYOU" virus, which disrupted operations at large corporations, governments, and media organizations

¹²The financial management systems requirements have been developed by the Joint Financial Management Improvement Program, which is a joint and cooperative undertaking of the Department of the Treasury, OMB, GAO, and the Office of Personnel Management.

¹³The Standard General Ledger provides a standard chart of accounts and standardized transactions that agencies are to use in all their financial systems.

¹⁴Review of Security Posture, Policies and Plans (ED-OIG/A11-90013) February 2000.

¹⁵Defending America's Cyberspace: National Plan for Information Systems Protection: Version 1.0: An Invitation to a Dialogue, released January 7, 2000, the White House.

worldwide, we recently testified¹⁶ about the need for Federal agencies to promptly implement a comprehensive set of security controls.

- The auditors reported that Education had not taken a complete, comprehensive physical inventory of property and equipment for at least the past 2 years. Comprehensive inventories improve accountability for safeguarding the government's assets, such as computer software and hardware, and establish accurate property records. Without such an inventory, property or equipment could be stolen or lost without detection or resources could be wasted by purchasing duplicate equipment already on hand. An alleged equipment theft is currently under investigation by the OIG.

In addition, vulnerabilities in the Department's student financial assistance programs have led us since 1990 to designate this a high-risk¹⁷ area for waste, fraud, abuse, and mismanagement. As we reported in our high-risk series update in January 1999, our audits as well as those by the Department's IG have found instances in which students fraudulently obtained grants and loans.

REVIEW OF THE GRANTBACK ACCOUNT

The grantback account holds certain funds recovered from grant recipients following an audit determination that the recipients had made an expenditure of funds that was not allowable or failed to account properly for the funds. A portion of these funds could be returned to the recipients if and when the problem that led to the recovery of the funds has been corrected. Any amounts not returned to the grant recipients should revert to Treasury. For the grantback account, which is part of Education's Fund Balance with Treasury, its auditors reported that approximately 97 percent of the balance at September 30, 1998, was composed of adjustments that had accumulated since fiscal year 1993 for reconciling differences of various appropriations that could not be identified with any specific program. The auditors also reported for fiscal year 1999 that Education could not readily determine to which appropriations the adjustments balance belongs. Education's general ledger as of September 30, 1999, showed approximately \$314 million in Fund Balance with Treasury related to the grantback account, of which approximately \$297 million related to the adjustments. In January 2000, Education returned to Treasury approximately \$146 million of the adjustments balance. The auditors reported that Education is working with Treasury to determine the appropriate accounting for the remaining adjustments balance.

Mr. Chairman, at your request and that of the Vice Chairman of the Subcommittee on Oversight and Investigations of the House Committee on Education and the Workforce, we reviewed Education's grantback account. We briefed you and Education officials on our findings earlier this month and plan to issue our detailed report in the near future.

In our review of the grantback account, we found that although the account was established for grantback activities, Education also used it as a suspense account for hundreds of millions of dollars of activity related to grant reconciliation efforts. We also found that Education could not provide adequate documentation to support the validity of certain adjustments related to the reconciliation efforts and other activity in the grantback account. For example, out of a sample of 92 grantback transactions totaling \$128 million, Education could not locate or provide any documentation to support the validity of 39 of these transactions totaling \$47 million. In addition, out of 20 adjustment transactions we selected for testing, Education could not provide adequate documentation to support the validity of 6 transactions.

Further, Education did not maintain adequate detailed records for certain grantback account activity by the applicable fiscal year and appropriation. Such detailed records are needed to have an adequate system of funds control and help protect against Anti-Deficiency Act violations. For example, an adjustment we tested totaling \$111 million reduced the grantback account balance and increased the balance of six appropriations to ensure that projected negative balances for such appropriations did not occur. However, Education could not provide any documentation to show that the increases to the appropriation accounts to prevent the negative balances were valid. As a result of financial management systems deficiencies, inadequate systems of funds control, and manual internal control weaknesses, which we and other auditors identified, there is increased risk of fraud, waste, and mismanagement of grant funds, as well as increased risk of noncompliance with the requirements of the Anti-Deficiency Act.

¹⁶Information Security: "ILOVEYOU" Computer Virus Emphasizes Critical Need for Agency and Governmentwide Improvements (GAO/T-AIMD-00-171, May 10, 2000).

¹⁷High Risk Series: An Update (GAO/HR-99-1, January 1999).

We noted in our briefing that Education had taken or plans to take actions to address the grantback account issues. In addition, our briefing included recommendations to Education to strengthen internal controls related to documentation and policies and procedures for grant reconciliations and to develop and implement a formal, detailed plan to eliminate the remaining portion of the adjustments balance.

In summary, Education needs to be able to generate reliable, useful, and timely information on an ongoing basis to ensure adequate accountability to taxpayers, manage for results, and help decisionmakers make timely, well-informed judgments. While Education has planned and begun implementing many actions to resolve its financial management problems, it is too early to tell whether they will be successful. It is critical that Education rise to the challenges posed by its financial management weaknesses because its success in achieving all aspects of its strategic objectives depends in part upon reliable financial management information and effective internal controls. It is also important to recognize that several of the financial management issues that have been raised in reports emanating from reviews of Education's financial statements directly or indirectly affect Education's ability to meet its obligations to its loan and grant recipients and responsibilities under law.

Mr. Chairman, this concludes our statement. We would be happy to answer any questions you or other members of the Task Force may have.

Mr. HOEKSTRA. In the high-tech world, we can't get our little red, yellow and green light bulbs to work today.

I appreciate your timeliness to adhere to the 5 minutes. I am not sure that we can always say that about members. We are going to go with a low-tech Timex here and see how we control member's time. We will go on the 5-minute rule.

Mr. Moore, the reason that we wanted somebody from the financial sector and financial investing area to come today was just to establish that what we are asking for from the Department of Education is not a high hurdle. This is where the private sector begins, isn't that correct, with a publicly held company?

Mr. MOORE. This is the same thing that every company in America has to do, account for its income and how it is spending its money.

Mr. HOEKSTRA. And if a company does not do that, the impact is very, very significant.

The company that you highlighted has lost 90 percent of its market value, not necessarily because of proven fraud, waste and abuse, but because they could not produce accurate financial statements; is that correct?

Mr. MOORE. That is correct. Their methods by some were considered OK, but by generally accepted practices they are not considered OK.

Mr. HOEKSTRA. And the typical reason when you see such a dramatic action in the private sector is that it basically makes it very difficult for investors to make any kind of reasonable decision-making because the risks are too high, because they don't know how money that they are investing is actually is going to be used or how it is going to be reported?

Mr. MOORE. That is correct.

Going further, that may be the tip of the iceberg, is what many investors may assume. If this is uncovered, what else hasn't been uncovered yet?

Mr. HOEKSTRA. Mr. Murrin, I don't know if you want to add to that. In the private sector, I think you are right. It is viewed as a symptom. If they can't do the basics, what else is going wrong? If you don't have the proper financial controls in place, you create an environment where fraud, waste and abuse can exist.

Mr. MURRIN. I think it is fair to say that good financial management is applauded in the financial community as it is in the public sector.

Mr. HOEKSTRA. And it is highly penalized if it is not there?

Mr. MURRIN. That is correct.

Mr. HOEKSTRA. I applaud the IG and the Justice Department for the work they have done in the inventory and overtime scams, but it shouldn't be a surprise that these scams can happen at the Department of Education. For a number of years, it has been repeatedly brought to the Department's attention that they lack adequate inventory controls, and year after year we have seen little action to fix this problem. Such inaction sends a message to potential thieves that no one is guarding the store.

Mr. Lewis, you went through the end result of what happened without proper inventory controls. You outlined a list of everything from a 61-inch television, to Gateway computers, phones and disc players, in all inventory totaling more than \$300,000, and discussed the more than \$600,000 in false overtime billing. Based on the testimony we've heard today, it is sad to say that none of this should be surprising.

Ms. Lewis, you also outlined a number of other areas where you are currently investigating or identifying fraud, waste, and abuse. Some of the numbers may seem small in the context of the Department's overall budget, but a million here and a million there adds up rather quickly.

Ms. Jarmon's testimony highlighted some issues that present long-term concerns. The Department's grantback account is plagued by a lack of documentation or inappropriate designation of funds controlled by that account. In the case of a grantback account we are talking about hundreds of millions of dollars, is that correct?

Mr. ENGEL. Yes, that is correct.

Mr. HOEKSTRA. And we don't know if fraud has occurred or has not occurred, we basically just don't have the information?

Mr. ENGEL. That is true. In our testing that we have performed for about half of the transactions that we had selected for testing, we were unable to be provided with adequate documentation to determine whether those transactions themselves were valid. So for an instance like that, I can't speak to whether it is fraud or not because there is no documentation to speak to.

For the ones where we were provided the adequate documentation, we did not see indications of fraud. But in our work we did identify numerous instances of weaknesses in controls, lack of approval requirements, lack of effective reconciliation procedures which increased the potential for fraud, waste and abuse to take place.

Mr. HOEKSTRA. Just in wrapping up for my colleagues, tomorrow the Education and Workforce Committee will mark up a piece of legislation which I am anticipating will have bipartisan support. It will move to the top of the priority list for GAO the task of performing a more comprehensive fraud audit. The goal of the audit is to identify if there is additional fraud happening in the Department based on what we found today.

The standard we are asking for is not unreasonable. There have been a number of documented cases of fraud, waste and abuse within the Department of Ed. There are still many questions that need to be answered from our standpoint on the Education and Workforce Committee. It is a high priority to get a handle on this issue and bring it under control.

Ms. RIVERS.

Ms. RIVERS. Thank you, Mr. Chairman.

Mr. Moore, are you a CPA?

Mr. MOORE. No, a CFP.

Ms. RIVERS. Have you ever been a government auditor?

Mr. MOORE. No.

Ms. RIVERS. Do you have any firsthand accounts with the Department of Education?

Mr. MOORE. No.

Ms. RIVERS. Mr. Murrin, when Ernst & Young did their review of the Department of Education, you folks didn't catch the \$300,000 scheme that was going on. How come?

Mr. MURRIN. That is correct, we did not. We were not engaged to perform a forensic or fraud audit. We were engaged to perform an audit of the financial statements of the Department.

Ms. RIVERS. Did it have anything to do with the size of the scheme?

Mr. MURRIN. That would play a role in how readily the item is detected.

Ms. RIVERS. How?

Mr. MURRIN. The range that is discussed for the grantback account is large enough that it becomes identified as an issue that would get discussed and potentially discussed in a forum like this. It is considerably less likely that a \$300,000 item would have appeared on the radar screen for that kind of discussion.

Ms. RIVERS. So even though that is a whole lot of money to people like us, in the scheme of what the Department does, \$300,000 is a hard number to track?

Mr. MURRIN. Within the context of a financial audit of the Department, the \$300,000 would not necessarily show up on the radar screen.

Ms. RIVERS. Ms. Jarmon or Mr. Engel, the grantback account, some people have referred to that as a slush fund. Could the Department of Education—could they or is there any indication that they did use money from that account to purchase things, to spend in other accounts, to do anything outside of the law with that account?

Mr. ENGEL. We did not find any evidence, in the transactions for which we had received support, that the transactions were anything but related to grant activity. We didn't see, for instance, a purchase of a car or anything. But, again, I would point out that for half of the transactions that we had selected for testing we were never provided any documentation.

Ms. RIVERS. I see that under the law the IRS is supposed to share information with the Department of Education to track compliance information, and they are unwilling to do that. Why is it that the IRS is not giving the information that the law requires?

Ms. LEWIS. The Higher Education Act Amendments of 1998 authorize the Department to receive this information, and coordinate with the Treasury.

In terms of implementing that, the IRS has indicated, as we indicated at your February hearing here in the Budget Committee, that they feel that there legally needs to be a very explicit amendment to the Internal Revenue Code to allow them, without taxpayer consent, to share the information on tax forms so that the Education Department can compare it to the FAFSAs. So the Office of Inspector General has specifically recommended that Congress pass whatever additional legislation is necessary.

Ms. RIVERS. How long ago did you recommend that?

Ms. LEWIS. We supported the amendment when it was first considered in Congress and then——

Ms. RIVERS. And how long ago was that?

Ms. LEWIS. It became effective with the 1998 amendments to the HEA. And in the implementation process there have been discussions by OMB, the Department of Education, Treasury and the IRS, and this issue of a legal impediment has arisen. In our semi-annual reports and in testimony we have indicated that if this is the case, then hopefully there can be some clarification in the Internal Revenue Code because the Department and the OIG are very desirous of that.

Ms. RIVERS. When did you first make that recommendation?

Ms. LEWIS. Since 1998.

Ms. RIVERS. And yet Congress has not taken any action?

Ms. LEWIS. I know that it has been considered. It was a subject of discussion of the committee back in February.

Ms. RIVERS. Thank you, Mr. Chair.

Mr. HOEKSTRA. Mr. Moran and myself are currently waiting for the legislative language to come back from legislative counsel. I think it is kind of tricky to craft it, and they are busy writing amendments for the appropriations bills. We wanted to do that in a bipartisan way, and at the last hearing Mr. Moran indicated a willingness to work with us, and so we are trying to work out the exact language necessary to address this issue.

Ms. LEWIS. Yes.

Mr. HOEKSTRA. Mr. Green.

Mr. GREEN. Thank you, Mr. Chairman. My questions are fairly simple and fairly basic ones.

Mr. Murrin, obviously, your firm, your office, has to have a great deal of experience in dealing not only with the Department of Education but with some major employers and major companies. One thing that we constantly hear is that the Department of Education and other agencies, other departments, are unable to do rudimentary audits because somehow their operations are so complex and so complicated that they can't do that. Can you give us some sort of context here comparing the types of functions that they are involved with and, on the other hand, a Fortune 500 company and its operations in terms of complexity? Does it make sense that these U.S. Federal departments can't—will always be unable to audit their books because they are so complicated? How does that compare with what goes on in the private sector?

Mr. MURRIN. I think there are parallels between the largest private sector entities, and it certainly would be with the largest private sector entities, and with public sector entities. I do not share a view that the agencies should never be able to get clean opinions and should never be able to get rid of material weaknesses and reportable conditions.

I guess our view would be that they have come from very far back in the pack, from a 100-year history of never having had financial audits. They are moving forward with the passage of the CFO Act and the extension of financial auditing to other agencies, and moving forward to get the audit discipline in place, but in many cases, they have a long way to go. And to the extent that the financial management systems that they are dealing with were never put in place with the idea that someone would rigorously come and check the way that a financial audit process does every year. As to how the numbers are pulled together, and ask questions as to whether I have the detect controls, whether you have the prevent controls, they are finding it difficult to achieve that early on. But the parallels with the largest private sector entities would exist, and eventually a very large multinational company with locations across the country or across the world faces some similar things to what those public sector do and have to address those issues and have successfully addressed those issues.

Mr. GREEN. Obviously many of those companies are going well beyond the basic auditing requests that we have made.

Let me shift everyone's attention and thinking and posture. I would like each of the witnesses, if you could, if you had to offer one single thing, one single principle that you would like to see implemented at the Department of Education to try to rapidly move us toward compliance, what would it be? And I toss that out to each of the panelists. What is it that should be done? What one step would you recommend?

Mr. MURRIN. Since I have a microphone, of the points that we have raised in our testimony today and have raised in our reports and sort of a mantra that I have, it would be some of the key detect controls, and within the Department and within many of the agencies, it is really a toss-up which of the key detect controls you would focus on first. But reconciliation processes would be very high on that list of things. If you can get a good subsidiary record listing of all of the assets that you can, reconciling to a total, to the general ledger, and report it in a set of financial records and do some comparisons between the detail and what you actually expect to see, confirming loans or looking for fixed assets, that would be the key item we would focus on.

Ms. LEWIS. I would concur. Focus on the internal control report. While it is a very important goal to achieve a clean financial statement opinion, simultaneously focus and use the internal control report as a blueprint for how you can fix systemic issues. When there are documentation gaps and there are untimely or long times between reconciliations, it leads to problems at the end. You are looking to insert internal controls up front so that you can attempt to prevent those problems coming in at the end.

Ms. JARMON. I would agree with Ms. Lewis and Mr. Murrin. The internal control issues need to be focused on, but I would like to

add that a lot of weaknesses at the Department of Education, and I believe the auditors have always stated, relate to human resource issues and financial systems problems. I know that the Department has had a lot of turnover in its CFO's office. The right people in the office, and proper training of the financial managers, and good understanding and implementation of the system that they have recently purchased are critical.

Mr. ENGEL. Just adding on to what the other witnesses have said, I would probably also add that because of the magnitude of transactions that go through the Department, through its computers, and you are involving payments and everything being accounted for through the computer systems, that it should be emphasizing and making sure that it has appropriate access controls over the computer so that someone cannot access the system and divert funds.

Mr. MOORE. I would tend to look at a control board as was looked at with D.C. When you have a problem which has been as pervasive and as long-term, I think the leadership in terms of the control and accounting functions and that which filters down through the employees would be key to turning it around.

Mr. GREEN. So you would favor some kind of outside board to come in and take control and make the systemic changes?

Mr. MOORE. I am not qualified to answer that question necessarily, but I think that has to be considered. If it is continued and repeated, then clearly it is not getting done within the walls or within the Department itself.

Mr. GREEN. Thank you.

Mr. Chairman, before I turn it over, I would like to ask unanimous consent that all written statements submitted by Members be included for the record.

Mr. HOEKSTRA. Without objection, so ordered. Thank you.

You all talked about the reconciliations and their importance. Has the Department been doing monthly reconciliations with Treasury? Has that started yet?

Ms. LEWIS. I am going to have to get back with you on that. I know when we testified in March, that was certainly the intention. But I must admit I need to get back to you on the record, unless GAO knows for certain.

[The information referred to follows:]

RESPONSE BY MS. LEWIS TO FREQUENCY OF CASH RECONCILIATIONS QUESTION

According to the Department's Office of the Chief Financial Officer (OCFO), monthly reconciliations were performed starting with the March 2000 data. The Department states that the Treasury Department provides matching data by the 23rd of the following month. The Department also indicates it is in the process of reconciling April 2000 data, and ongoing work is being conducted to reconcile prior year data.

Mr. ENGEL. I believe right now they are being done on a quarterly basis, and I know that they have been working to develop a process—I think they have acquired some software that they are using to try to assist them in their reconciliation process.

Mr. HOEKSTRA. For those not familiar with it, the reconciliation is between Treasury and the Department of Education. There has been an inability to reconcile what the Department of Education says that they wrote checks for and the Treasury Department says

that they have cashed. I am also assuming that if they are moving to a quarterly basis, they are not yet to the point where they are preparing interim financial statements on a quarterly basis. Are they doing that? Have they done that this year?

Ms. LEWIS. It is my understanding from the Department that in June the goal, or plan, is to produce the first interim statements.

Mr. HOEKSTRA. OK. So that would be a 6-month statement.

Ms. LEWIS. It is my understanding that it would run from the first of the fiscal year through the halfway point of the fiscal year, and I believe—if I can make sure that is—by getting back to you to confirm that.

Mr. HOEKSTRA. Thank you.

[The information referred to follows:]

RESPONSE BY MS. LEWIS TO INTERIM FINANCIAL STATEMENT QUESTION

Yes, thus far, the Department has prepared two interim statements; one for the month of February and one for the month of March. It is our understanding that full interim statements and supporting schedules for the period ending in March 2000 will be delivered to Ernst and Young on June 15 and that information through June 2000 will be delivered in August.

Mr. HOEKSTRA. Ms. Hooley.

Ms. HOOLEY. Yes, thank you, Mr. Chairman.

The question, Mr. Murrin, is for you. Their failure to have a clean opinion on the audit, financial management; not having a clean opinion, does that reflect fraud and mismanagement or just problems with integration of the financial management systems?

Mr. MURRIN. It is an initial indicator of problems with the system. It is not a direct indicator that fraud, waste and abuse is actually occurring.

Ms. HOOLEY. I am just curious. You have done other audits, I am assuming, with other government agencies or outside agencies. How long does it generally take for an organization to come up with all of the tools and put the systems in place that they need to put in place before they can have a clean opinion? Just give me an estimate of how long this should take, this whole process.

Mr. MURRIN. You know, it is really difficult to say. It depends on the management of the organization, the resources that the organization has and can devote to a particular problem, and really the process that is used to address those recommendations over time. I can't address that on average.

Ms. JARMON. GAO does the governmentwide audit, and this year when we testified on March 31 on the results of the fiscal year 1999 24 CFO Act agencies, 13 of the 24 had received clean audit reports for fiscal year 1999. Most of those agencies were not required to do agencywide audits for the first time until fiscal year 1996. So 13 of the 24, and I just heard yesterday that the Department of Interior got a clean opinion, and so now it is 14 of the 24 have clean opinions.

Ms. HOOLEY. Do we have enough personnel and resources to make this happen as quickly as we would like them to do this; do you know?

Ms. JARMON. It is probably a different answer for different departments. Some departments are probably doing fine. There are some which are having more problems with personnel and human resources. So it is different on a department-by-department basis.

Ms. HOOLEY. How does this audit compare to the previous audits?

Mr. MURRIN. The 1999 audit, which had four statements that had qualifications and one disclaimer, was issued on a more timely basis than prior audits. The audit for the immediately preceding year, for 1998, had a disclaimer on all of the statements. And the audit for 1997, I believe, was one of unqualified on all of the statements.

Ms. HOOLEY. What are some of the improvements that the Department has made in management of the student loan program, which I know has been troublesome, and are the default rates going up, down? What is happening in that area with student loans?

Ms. LEWIS. I can indicate what I know. Obviously the Department would be in a position to speak particularly to some of the issues.

For example, as I mentioned in my testimony, in the area of death and disability discharges, the regulations changed around 1995 to basically allow persons who had a discharge of their loan obligation to reapply for loans.

It is my understanding that the Department noticed a spike in those types of borrowers and asked the Office of Inspector General to conduct an audit to review the situation, which involved the match of NSLDS data and Social Security Administration data. The OIG looked at discharges in a certain time period and subsequently looked at the earnings date from Social Security to see if persons who were presumably dead or permanently and totally disabled were showing through the Social Security records that they were earning income. And we did find matches. In other words, a population that showed income earnings after the discharge.

Again, the Department requested that work. We issued the results in June 1999, just before I got to the Department, and made some very specific recommendations to change the form, making the recordkeeping so that they needed to show that there was actually a doctor with a medical license number filling out the form, and requiring an original or certified copy of the death certificate. Those recommendations were implemented.

We have worked with the Department and with the guaranty agencies to try to find particulars to do the match. Part of the agreement for the match was that there would be no particular indicators—no particular information that came out of the match to identify a particular person. So we have had to go back and do additional work. That would be one case I am personally familiar with where significant improvement, tightening of controls, did take place.

Ms. HOOLEY. And have the default rates now gone down?

Ms. LEWIS. That was a borrower situation, death and disability. So they are not related.

Ms. HOOLEY. But there has been a tightening?

Ms. LEWIS. In that area, in death and disability, yes.

Ms. HOOLEY. Thank you.

Mr. HOEKSTRA. Mr. Collins.

Mr. COLLINS. Thank you, Mr. Chairman. It has been mentioned trying to get some language together for the IRS to share informa-

tion with the Department of Education. I think we better be careful with such requirements or mandates, particularly for an agency that can't conduct its own business. The information that is reported to the IRS is very confidential. It is not shared with anyone, not even a Member of Congress much less an agency which is under the authorization of a Member of Congress. Does the Department of Education write checks, or does the Treasury Department?

Ms. LEWIS. I'm sorry?

Mr. COLLINS. Does the Department of Education actually write checks, or does the Treasury Department pay the bills for the Department of Education?

Ms. LEWIS. There definitely is a function at the Department of Education where checks are written. For example, reimbursement checks for travel is one example where checks are written and certain vendors are paid with checks. And then there are many, many other transactions that take place through the Treasury Department mechanisms.

Mr. COLLINS. Do you have a breakdown in dollars, one versus the other?

Ms. LEWIS. No, sir, I'm sorry. I don't.

[The information referred to follows:]

RESPONSE BY MS. LEWIS TO QUESTION ON WHETHER OR NOT THE DEPARTMENT
WRITES CHECKS

The majority of funds go out directly from the Federal Reserve, at the Department's direction via wire transfers or Treasury checks. The Department does issue checks for employee reimbursements, payments to field readers, payment of the centrally billed travel account and the purchase of supplies when purchase cards are not feasible. According to the Department, in fiscal year 1999, approximately 22,700 third party draft checks were issued, totaling \$25 million or less than 1 percent of the Department's expenditures for the year.

Mr. COLLINS. Who would audit that, you or the GAO?

Ms. LEWIS. As part of the financial statement audit, which looks at large transactions and five particular statements that the Department prepares, there is information in those statements that the currently engaged auditor, Ernst & Young, would look at.

Mr. COLLINS. Do we do a cash flow chart, operating statement, balance sheet or all?

Ms. LEWIS. I will ask Mr. Murrin to explain the financial statement.

Mr. MURRIN. There are five statements that the Department of Education prepares which we audit. Of the statements you are referring to, there are statements that do reflect, in effect, the cash transactions, the cash that goes out the door to grantees and others.

Mr. COLLINS. That is part of your operating statement?

Mr. MURRIN. Correct.

Mr. COLLINS. Income and expenses?

Mr. MURRIN. A parallel, yes.

Mr. ENGEL. Regarding the disbursement authority, the Department of Education does have disbursing authority to write their own checks. Unfortunately, I don't know the volume of checks they write on their own, which then still would clear through the Federal Reserve and Treasury would get involved, versus the checks where they send basically a tape of what they want to have dis-

bursed, which is what a lot of agencies do, to Treasury, and then Treasury actually prepares the checks and sends them out.

Mr. COLLINS. I know that Social Security checks are prepared by Treasury.

How many employees are in the Department of Education when it comes to the accounting department?

Ms. LEWIS. I don't know. I will have to get back with you on that. The Department would have the answer. I don't have it in my head.

[The information referred to follows:]

RESPONSE BY MS. LEWIS TO QUESTION ABOUT THE DEPARTMENT'S ACCOUNTING STAFF

According to OCFO, its ceiling is 87 FTE and 74 FTE are currently on-board.

Mr. COLLINS. OK. In the loan forgiveness, that seems to be an area of problem. How do you verify disability?

Ms. LEWIS. There is a form. It is a governmentwide approved form that is sent to the individual who is seeking a discharge for a permanent and total disability, and it is the obligation of that individual to submit that, either to the guaranty agency or to the Department depending on which type of loan they completed. And, for example, when we did the audit, one of the things that the auditors did was go to the guaranty agency and look at some of those forms. Some of them were illegible. There did not seem to be a lot of controls. There was no box for ensuring that there was a medical license number. And basically it appeared that the information was accepted at face value, which is why we made the recommendations that that process should be tightened up.

The form was rewritten. OMB approved it. I think the new form took effect in January. And so now there is more information required on the form. Also the guaranty agencies were issued what is called a "Dear Partner" letter in November. The Department issued the letter to give more specific guidance to the guaranty agencies when they saw an application for a discharge and they had questions about it, specifically whom in the Department they could speak to, what their ability would be to question and to go back, and what requirements were in place. So there have been some tightening of the procedures.

Mr. COLLINS. Well, I noticed that you cross-check with Social Security on death certificates.

Ms. LEWIS. Subsequently, we look to do a match with the Social Security Death Index because in the match in the original audit that we did, we were not in a position to use any individual data to follow up. While we got information from the match indicating that there were persons who appeared to be earning income after a death, there was no name or Social Security number. That was part of the agreement for the match. So we have looked to go with the Social Security Administration to have a match.

There is a law, I think it is called the Computer Matching and Privacy Act, which was passed in the late 1980's by Congress to set the requirements any time government agencies do matches. There is also something called the Data Integrity Board which exists within each agency, and there are specific requirements for that which have to be met by each agency, as they may seek to match

some of the data that they have in their systems with data from another agency.

Mr. COLLINS. Would it not be true, though, that most people who would have a permanent disability would also file for disability insurance, for Social Security, and you could cross-check that with Social Security also?

Ms. LEWIS. We did make a recommendation, as part of the audit, for the Department to consider working with Social Security's processes and information since it appeared that they had a model that might provide some helpful guidance. That was one of the recommendations that the Department did not—I think it was the recommendation that the Department did not agree with in terms of piggybacking onto the Social Security system that is already in place. This is under negotiated rulemaking.

All of the recommendations that are implemented, proposed and then finalized as part of the Higher Education Act go through a process of negotiated rulemaking. So procedures and requirements related to death and disability discharges are currently under negotiation with the public as part of negotiated rulemaking. Any additional tightening or other changes to the system, whether it be the definition or requirements to reinstate loans should someone ultimately be determined to have inappropriately been given a discharge, those are all matters that are being discussed with the public as part of the negotiated rulemaking process. This is my understanding from information I have from the Department.

Mr. COLLINS. Well, I find it odd that they would cross-check to see if a person is still alive, but don't cross-check to see if they are drawing disability. Something doesn't come together here. When you have a department that can't account for all of its money, I am not surprised.

Let me ask you one other thing. In your investigation did you find the slack in the operation in career employees or appointees?

Ms. LEWIS. The Telecommunications Specialist is a—I believe—is a career employee. But obviously I am very much mindful that the Justice Department has indicated which aspects of the investigation we can speak about, which have basically been made public through the plea agreement with Mr. Sweeney and is from what I formed my testimony. The Telecommunications Specialist to whom I referenced was a career employee.

Mr. COLLINS. He was one out of how many?

Ms. LEWIS. I am not at liberty to say.

Mr. HOEKSTRA. I believe public reports indicate that there are six or seven additional employees from the Department.

Ms. LEWIS. There are five other employees who have been suspended without pay, and one is on administrative leave that is proposed to be suspended without pay. You are correct, Mr. Chairman.

Mr. COLLINS. Let me just finish with one more comment. It appears when it gets down to the fact that you can't account for all of the checks that they are writing, that they are of the opinion that as long as they have checks, they have money. Thank you.

Mr. HOEKSTRA. Just a couple of questions. I am glad we are doing this in the Budget Committee because I think there are some things that we can share from the Education and the Workforce Committee. One thing that kind of drives a little bit of our frustra-

tion on this is the theft ring or the embezzlement, whatever we want to call it, started when, at least that we know about, the earliest that we know about?

Ms. LEWIS. We have looked back at records to the beginning of 1997.

Mr. HOEKSTRA. So it is something that went on for potentially 2½ to 3 years. The duplicative payments issue first came up when; again, that we are aware of? I believe Lockheed was going to testify last week had a duplicative payment back from when?

Ms. LEWIS. From information from the Department, it is my understanding that there are at least nine instances of duplicative payments. That is, nine occasions when it happened. Within that there could be a number of either vendors or grantees.

Mr. HOEKSTRA. The first one occurring?

Ms. LEWIS. I think in fiscal year 1998, according to information that we have gotten from the Department—1998, 1999 and 2000.

Mr. HOEKSTRA. And the last one was as recent as January of 2000. There was a payment of \$5.9 million in January of 2000, and there were 51 duplicative payments or 51 schools that were affected in December?

Ms. LEWIS. The information that I have shows four instances involving grantees or SFA schools totaling approximately \$150 million in fiscal year 2000. I can look more specifically.

Mr. HOEKSTRA. How much money for duplicative payments?

Ms. LEWIS. From the Department for fiscal year 2000, four instances involving either grantees or SFA schools totaling \$150 million.

Mr. HOEKSTRA. Wow. That is new information; \$150 million in duplicative payments this year. OK. This has been an ongoing problem. That number shows no indication of subsiding.

The third thing is the grantback account, there has been some talk about that, and I think in the report that you are going to be issuing, the money that actually went back in the grantback account, that tied directly to the purpose of the grantback account, is less than 10 percent, right?

Mr. ENGEL. The account was established in 1991. They started to record adjustment activity, the suspense activity in 1993. Every year since 1993, the actual balance related to what the account was set up for was less than 5 percent for every year thereafter.

Mr. HOEKSTRA. Before you said a lot of money had to do with grants, but specifically what that account was set up for, only 5 percent of the funds could be documented as being in that fund specifically for the purpose that the fund was set up for.

Mr. ENGEL. That is true.

Mr. HOEKSTRA. And that started in 1991.

I think the frustrating thing for us on the Education and the Workforce Committee, and I hope that those frustrations are shared on the Budget Committee, these are not new problems. The duplicative payments have been going since at least 1998, the grantback problem since 1993. Depending on your definition, it might have been gone back to 1991. These are systemic problems over a long period of time and not just one-time occurrences. I think that is the frustrating thing that we can't get a handle on that.

And I think, with the check-dispensing authority of the Department, the Department of Education has a different kind of relationship than a number of the other agencies have with Treasury, correct?

Mr. ENGEL. That is correct.

Mr. HOEKSTRA. And that allows a greater degree of autonomy in spending and issuing checks?

Mr. ENGEL. There are other agencies, Defense, but you are right, the majority of the agencies do not write their own checks.

Mr. HOEKSTRA. Ms. Lewis.

Ms. LEWIS. Just looking again, it is our understanding from information provided that there were nine instances over the three fiscal years. All of the money has been returned of the amounts identified as duplicative payments, except there is continuing disagreement about approximately \$44,000 involving two vendors. We have contacted the Office of General Counsel to ask what happens now if there is continuing disagreement, what steps—to bring to the General Counsel's attention.

You had previously mentioned, Mr. Chairman, some open audit recommendations that we testified to at the March hearing. As you know, we have been working on these open audit recommendations. The Department provides a corrective action plan. Just for the record, the total for fiscal years 1995 to 1999 was 139 recommendations. At present there are 67 open, 72 closed; 46 of the 67 are nonrepetitive. So we are also in a dialogue about that, but just to update that for the record.

Mr. HOEKSTRA. I just want to say one more thing. I am not worried about the duplicative payments that we found where we got the money back. Once we find them and go back to those vendors or schools and ask for our money back, I would expect to get it. What concerns me are the ones that we may not have found.

Ms. LEWIS. Since we spoke on this subject in November, my office has obtained GAPS data, for the initial 3-month period that the data went into GAPS. We have also been working with the Federal Reserve to acquire other data. For a period from mid-1998 through mid-1999, my auditors are looking to see if there are any other anomalies in the GAPS system that might be duplicative payments or anything else. We are still in the process of conducting that work.

Mr. HOEKSTRA. Ms. Rivers.

Ms. RIVERS. Thank you, Mr. Chair. I have a couple of questions.

Mr. Murrin, in the time that you have done the audits and made recommendations to the Department of Education, have you encountered any unwillingness on the part of the Department to accept your recommendations, or have you come across any specific instances where the Department has been obstinate or deliberately noncompliant toward recommendations?

Mr. MURRIN. To my knowledge, no.

Ms. RIVERS. Ms. Lewis, you mentioned an investigation you did was because of a Department of Education referral. So as we look through your testimony—

Ms. LEWIS. That was our audit work, yes.

Ms. RIVERS. When we use prosecutions pursued or evidences of wrongdoing, those can be the result of your internal investigation,

or it can come from the Department of Education finding problems on its own and referring them to you?

Ms. LEWIS. We do have a hotline function, for any individual, the public or within the Department. And, as in any OIG office, that is a very important part of any internal control system. We also get referrals from offices within the Department and from the General Counsel's office for matters for us to follow up on.

Ms. RIVERS. Have you encountered any specific instances of reluctance in pursuing an investigation when there is evidence of criminal activity or any unwillingness to prosecute once information has come to the attention of the agency?

Ms. LEWIS. We work with the Justice Department, mainly the local U.S. attorney's offices, and we, along with very well-trained investigators and their agent-in-charge, will present their findings to date and the attorney's office will determine if they feel that the case should be opened.

In our experience we have had cooperation from the Department, the leadership of the Department and managers in the Department in terms of providing us information to help us do our investigation, and then understanding that our requests to follow up with more specific information or additional material oftentimes comes at the direction of an assistant U.S. attorney.

Ms. RIVERS. Given what we know about the personnel problems within the Department and their software difficulties over time, do you think that the Department has given a less than good faith effort to comply with your recommendations?

Ms. LEWIS. I have been there since last June and had a very difficult experience in terms of the 1998 audit. That was not a timely audit. The Department—everyone started late. The financial statements were provided late. This was Ernst & Young's first year. The Department, OIG auditors and Ernst & Young worked to try to bring that to closure with a result of a disclaimer, and there are many lessons to be learned from that. This was why we very much set the absolute unbreakable goal of ensuring that for the very first time, the Department would achieve its audit for 1999 in a timely fashion, and it did so.

Ms. RIVERS. I am interested in whether or not their efforts represented less than a good faith attempt to comply with what you were recommending. Did you feel that they were unwilling or being obstinate or being noncompliant deliberately?

Ms. LEWIS. I have no indication of any deliberate noncompliance. We push very hard to see that recommendations that we feel are appropriate, that come out of our audit work or from Ernst & Young, such as the 1994 document that the Chairman spoke of in his opening statement, was indeed a document that arose from some information we had from an investigation. It is called an IPAR. So it is important, but the property management issues have been on the Department's Federal Managers' Financial Integrity Act list since 1994. And it is very important that efforts that would yield results take place. We are living in the era of results.

Ms. RIVERS. Do you think that results have not been achieved because of bad faith on the part of the Department?

Ms. LEWIS. No, I don't have any indication of bad faith or willful noncompliance, but in large part it is the importance of getting to the result.

Ms. RIVERS. Ms. Jarmon or Mr. Engel, do you have any experience which indicates that the Department was unwilling or non-compliant with your recommendations as they have moved through this process with software?

Ms. JARMON. No, we have not had any indications where they have been willfully noncompliant, but it has taken some time. Many of the recommendations have been repeated from year to year since the first audit.

Ms. RIVERS. Thank you, Mr. Chairman.

Mr. HOEKSTRA. Mr. Collins.

Mr. COLLINS. I just want to re-ask one of my questions.

Did you find the slack in the Department in career or appointees? You gave an example of a career who had actually committed a felony there, but is the overall administration of the Department, down to each department within the Agency, is it run by career or appointees?

Ms. LEWIS. It differs across the offices. There are some offices that are headed by Assistant Secretaries who are, as you know, Presidential, Senate-confirmed, political appointees and then there are some offices that are headed by career appointees.

The organization has changed over time. Years ago the CFO and CIO offices were merged with one individual running the office. Those offices are now currently broken out, and there are two career executives running those offices. So over time the structure changes.

As Mr. Chairman reminded me, the seven individuals who were Department of Education employees who have been identified for suspension without pay, and I just need to clarify, there are allegations concerning the Telecommunications Specialist. The Telecommunications Specialist has not been found guilty or pled to any crime, so I just wanted, Mr. Collins, to make that clear, if I didn't make that clear before. The person has been identified and is being investigated, but has not pled or been convicted of any Federal or other crime.

But the seven are employees in the ranks—were previously employees in the ranks of the Department, in the staff ranks.

Mr. COLLINS. I think it is important to know who is doing the best job, who is administering the best oversight. Is it career or appointees? Then you can make a determination how you want to set your different departments up.

Ms. LEWIS. We are taking all of the information that we have from the investigation, and we have asked some of our auditors to go in and do some follow-on looks, such as at other contracts and other issues that have arisen. We are going to bundle that information up and put it together, analyze it, and we are going to be presenting it to the current head the chief information officer, the new head—he arrived last September—in terms of identifying any lessons learned and our recommendations for internal control improvements that need to be made.

And I will, Mr. Collins, make sure that all of the information that we have there is shared appropriately with the rest of the De-

partment, very senior officials, to try to prevent other mistakes. It is the very process that we are doing now on third-party checks and the purchase cards. We are going office by office, and we are doing internal control testing based on GAO's new standards, and we are meeting with the Assistant Secretary or the head of the office, and we are presenting them with our findings. We will also do a cap report. There will be about 13 or 14 products. As we go into an office, we are also identifying other areas to follow up on. So the office-by-office approach is one that we are looking to adopt, Mr. Collins.

Mr. COLLINS. Thank you, Mr. Chairman.

Mr. HOEKSTRA. I thank the witnesses for being here today. With that, the Task Force will be adjourned.

[Whereupon, at 11:52 a.m., the Task Force was adjourned.]

SMOTHERING EDUCATION REFORM: HOW WASHINGTON STIFLES INNOVATION

WEDNESDAY, JUNE 14, 2000

HOUSE OF REPRESENTATIVES,
COMMITTEE ON THE BUDGET,
TASK FORCE ON EDUCATION AND TRAINING,
Washington, DC.

The Task Force met, pursuant to call, at 2 p.m. in room 210, Cannon House Office Building, Hon. Peter Hoekstra (chairman of the Task Force) presiding.

Chairman HOEKSTRA. Good afternoon. The Task Force on Education and Training for the House Budget Committee will come to order. A few weeks ago, this Task Force held its first hearing. At that time we heard testimony about the Department of Education's inability to balance its books and some inherent weaknesses. Yesterday the House acted on that by passing a comprehensive fraud audit bill through the House of Representatives, which is now on its way to the Senate, asking the General Accounting Office to do a fraud audit within the Department of Education to identify those areas where there may be fraud or those areas that may be susceptible to fraud.

Today we will be discussing a different kind of inefficiency: resources that we believe should be going to our kids, but may get siphoned away to feed the bureaucracy or worse; federally created programs that are out of step with the priorities and needs of local school districts. Too often the net effect of creating hundreds of programs administered in Washington is that it burdens and stifles education reform and initiatives rather than facilitating them.

Many of the problems we will discuss today can be explored in more detail in the Education at a Crossroads report. This report was produced by the Subcommittee on Oversight and Investigations, which held 22 hearings across the country and here in Washington. We have heard from hundreds of students, parents, educators, community leaders and business owners. We sifted through thousands of documents to learn more about the effectiveness of Federal education programs.

The recommendations that came out of the Education at a Crossroads, was to get effective learning, we need to empower parents, return control back to the local level, send dollars to the classroom and not to bureaucracy, and at the local level you improve education when you focus on basic academics. I believe that is what we heard at one of the hearings in Central High School in Little Rock, AR, hosted by Senator Hutchinson.

I think today we have got witnesses who can talk about the effectiveness or the lack of effectiveness of Federal education programs at the State and the local level, and that is what we are here to find out about.

I will submit the balance of my statement for the record and yield to Ms. Rivers.

[The prepared statement of Peter Hoekstra follows:]

PREPARED STATEMENT OF HON. PETER HOEKSTRA, A REPRESENTATIVE IN CONGRESS
FROM THE STATE OF MICHIGAN

A few weeks ago, this Task Force held its first hearing. At that time, we heard testimony about the Department of Education's inability to balance its books. When an agency can't account for its money, waste, fraud, and abuse thrive. Not surprisingly, we heard example after example of abuse of our Federal education dollars, including the allegations of Department employees spending hundreds of thousands of taxpayer dollars on large screen televisions and electronics for themselves and their relatives.

Today we will be discussing a different kind of waste. Resources that should be going to our kids, but get siphoned away to feed a massive bureaucracy, or worse, federally created programs that are out of step with the priorities and needs of local districts. Too often, the net affect of creating hundreds of programs administered in Washington is that it burdens and stifles education reform and initiatives rather than facilitates them.

Many of the problems we will discuss today can be explored in more detail in the Education at a Crossroads Report. The report was produced by the Subcommittee on Oversight and Investigations, which held 22 hearings across the country and here in Washington. We heard from hundreds of students, parents, educators, community leaders and business owners. We sifted through thousands of documents to learn more about the effectiveness of Federal education programs.

What we learned in the Education at a Crossroads project should concern every American:

- Too few of our students are learning what they should be learning—despite the fact that the Federal Government spends more than \$100 billion a year on education.
- Too few Federal education programs have produced any evidence that they have helped children.
- Too many Federal dollars are tied up in bureaucracy, administration and programs that do not spend dollars to the classroom.

The Federal response to the rising tide of mediocrity in American schools has been to build bureaucracies, not a better education system.

We have to ask—isn't there a better way?

What we learned is that what works has little to do with federally designed "one-size-fits-all" programs. What we do here in Washington to improve education should reflect an understanding of what works. And what we learned by listening to people on the front lines of education around the country is that we need a Federal education policy that will:

- Empower parents.
- Return control to the local level.
- Send dollars directly to the classroom—not bureaucracy.
- Focus on basic academics.

We are fortunate to have with us today, witnesses who can talk about what works.

What we found as part of our review of Federal education programs is a system that does not focus on supporting what works. It is a system fraught with bureaucracy and ineffective programs. We found:

- There are more than 760 Federal education programs. The Subcommittee assembled the most comprehensive list of Federal education programs to date. At least 39 Federal agencies oversee more than 760 education programs, at a cost of \$100 billion a year to taxpayers.
- Even after accounting for recent reductions, the U.S. Department of Education still requires over 48.6 million hours worth of paperwork per year—or the equivalent of 25,000 employees working full-time.
- The State of Ohio completed a study that found that 50 percent of their paperwork was attributable to Federal programs, even though they only received 6 percent of their funds from the Federal Government.

- States like Georgia and Florida have found that it takes four to six times as many employees to administer a Federal dollar as it does a State dollar.
- As little as 65 to 70 cents of each Federal education dollar actually reaches the classroom. According to several studies, about 85 cents out of every Federal education dollar is returned to local school districts. Although these studies provided information not previously available on Federal education spending, they only examined what was returned to school districts. This is still several layers of bureaucracy away from the classroom. Given the 48.6 million paperwork hours required to receive Federal education dollars, not to mention the cost of State and local administration of programs, it is not unreasonable to assume that another 15 to 20 cents is spent outside of the classroom. This would mean a net return of 65 to 70 cents to the classroom.
- It takes 487 steps to approve grant applications. In 1993, Vice President Gore's National Performance Review discovered that the Department of Education's discretionary grant process lasted 26 weeks and took 487 steps. The Department over the last few years has been attempting to "streamline" this to 216 steps, but the process is not complete.

What these numbers tell us is that the Federal bureaucracy is out of control. Past Democrat Congresses have attempted to solve every problem with a program. Then, after a program was created and funded, no one ever asked whether it worked, whether it should continue to exist, or whether the money would be best spent elsewhere.

There is an incredible amount of overlap and duplication in Federal education programs. For example, we found that there are 11 drug education programs, 14 literacy programs and 63 math and science programs. GAO looked at what programs target at-risk and delinquent youth, and found that there are more than 127 Federal programs targeting these children, with little or no coordination. Moreover, the Department of Education only contains a little more than a third of all education programs. Even the Department of Energy has an education office, with its own task force.

Every time this Congress and future Congresses address the issue of education and every time we consider legislative action, we must ask a few simple questions, questions that I hope can be addressed by a few of our witnesses today.

1. Are we empowering parents and families by giving them a larger role in the education of their children or are we giving more power to bureaucrats?
2. Are we empowering teachers and principals to make the right decisions for their local school or are we giving more power to faceless administrators far removed from the classroom?
3. Are we sending dollars to classrooms where learning actually occurs or are we paying for paperwork?
4. Are we focusing on basic academics and achievement or politically correct social programs of unproven effectiveness?

The answers to these questions will guide us to craft solutions that help rather than hinder children. These are common-sense questions, but they have been ignored in Washington, DC, for too long.

I hope the witnesses today will be able to give us in Washington some additional insight into how the education bureaucracy is taking precious resources away from our children.

Ms. RIVERS. Thank you, Mr. Chair, and I want to thank the witnesses for participating today. After serving for the better part of a decade on a local school board, I am interested in hearing the different experiences. I can remember as a board member a lot of debate about the various programs that we provided in that local school district, but my recollection is only about 7 percent of the money that came to the schools I represented came from the Federal Government, and most of the programs and decisions that we made at the local school district level had to do with local or State money. I also remember that we had more regulations coming down from the State than we ever contemplated coming from the Federal Government. And I also recognize that some members of the school board had difficulty determining the difference between State and Federal regulation, and we often talked about a regulatory burden without trying to differentiate where that burden might be coming from.

So one of the things that I am interested in today is how school districts are using the 93 percent of the money that comes from other sources relative to the 7 percent that comes from the Federal Government; what regulations are actually stifling or smothering innovations; and how that 7 percent funding is causing the kinds of problems that are being suggested; and where regulation is coming from, from the Federal Government, State or local decision-making, and I look forward to your comments and an opportunity to ask questions.

Chairman HOEKSTRA. Today's first witness, is Senator Tim Hutchinson, who made history when he was sworn in as the first Republican Senator ever to be popularly elected from Arkansas. Senator Hutchinson brings a unique perspective to Congress as one of the few Members with a background in small business and education. His career in public service began with his election to the Arkansas House of Representatives where he served for 8 years. In 1992 he was elected to represent Arkansas' Third Congressional District in the U.S. House of Representatives where he served two terms.

He is a dedicated advocate for American families. He was the original author of the \$500-per-child tax credit, was one of the main proponents of welfare reform. He has also taken really the lead on the Senate side on many of the educational initiatives that we are also working here in the House, whether it is Dollars to the Classroom, Straight As and those types of things. A former history teacher, he also co-owned and managed KBCV Radio in Bentonville, Arkansas.

I have got another page but I will submit that for the record.

Mr. HUTCHINSON. Can I take the extra time if you stop?

Chairman HOEKSTRA. That is right.

The second witness is Eugene Hickok, who is the secretary of education for the State of Pennsylvania. He is chairman of the Educational Leaders Council. He was selected to help bring Pennsylvania's education system into the 21st century. He has been working hard to send Pennsylvania's education system to the head of the national class.

I have also got an extra page and a half on you which will be submitted for the record. Our next witness is Dr. Susan Sclafani, chief of staff for educational services in the Houston Independent School District. In that position she represents the superintendent on educational issues and coordinates activities of the departments directly involved in the education of children. In addition to her hands-on duties, she supervises the Department of Research and Accountability, and she is responsible for district development and board services.

I also have another page on you. But we will put those all in the record, and, Senator Hutchinson, we will begin with you.

**STATEMENT OF TIM HUTCHINSON, A UNITED STATES
SENATOR FROM THE STATE OF ARKANSAS**

Senator HUTCHINSON. I am honored to be on this panel with some distinguished leaders in education, and I am honored to appear before your committee. I have long admired and appreciated the work that you have done in the budget and education area, and

you have combined them on this Task Force, and you are to be commended. And we will remember with fondness your visit to Arkansas as part of your Crossroads project and your visit to Central High School, and we hope that contributed to the results of that project.

I am here today to discuss the issue of education reform and the appropriate Federal role in encouraging that reform and innovation. As a Member of the Senate Health, Education, Labor and Pensions Committee, I have been working on this issue for the past year and a half as we have been attempting to reauthorize the Elementary and Secondary Education Act, and we spent 2 weeks debating that on the floor of the Senate after having marked it up and sent it out of our education committee.

The Federal Government currently funds a very small percentage of the local education budget, but with that small percentage wields a great deal of influence. It is my opinion after looking at this for the past year and a half that the Federal Government funds systems, not students. Instead of requiring real results in student learning from our schools, the Federal Government gives them funding and then just asks only that they spend it in the required way. In doing so we are mandating enormous amounts of paperwork and applications to abide by this so-called accountability.

In Florida it takes six times as many employees to administer a Federal education dollar as a State dollar. Florida has 297 State employees administering \$1 billion in Federal funds and 374 employees overseeing \$7 billion in State funds. Unfortunately that kind of ratio of what it costs to administer State and Federal funds is not the exception, but is the rule.

As I have traveled around my home State of Arkansas visiting schools, I heard many stories about the numerous hoops that schools must jump through in order to receive Federal funding. This is of particular interest to me since Arkansas has a large number of small rural school districts that do not have the time or resources to fill out paperwork to comply with Federal rules and regulations.

Today I would like to talk about several examples from my State of ways that schools are affected by the laws that we pass in Congress. I recently visited an elementary school in North Little Rock and talked to a classroom of fourth-graders about American government. For 45 minutes we did a give and take. They asked me questions, and I asked them questions. It was a very bright group of kids. I was inspired by their understanding. They knew more about American government than most high school civics classes that I have spoken to. The key to this inspirational classroom was not any Federal program, but it was their remarkable teacher. The more schools I visit, the more I am convinced that the key to a good education is having a good principal and good teachers who are excited about their job and want to convey knowledge to their students.

After I talked to this fourth-grade class, the principal half jokingly introduced me to one whom he described as his boss. He said, "Meet my boss, the Title I coordinator for our schools." While his comment was meant to be funny, it revealed a truth about the Fed-

eral influence in our schools. The Federal Government provides only about 7 percent of education funding in this country, yet in a school in North Little Rock, Arkansas, the Title I coordinator wields as much influence as the principal.

I also visited another school in Arkansas where the principal had identified a specific need in her school that they wanted to address. This was in Van Buren, Arkansas, up in the northwest part of the State, my brother's district. She wanted to implement a concept known as point-in-time remediation to help underachieving students before they fall irreversibly behind. To do this she wanted to hire a teacher who would spend each day working to assist struggling students before they were forced to attend summer school.

In her desire to do what was best for her children, she applied for a Federal grant. The Title I coordinator rewrote her grant as a request to hire a teacher to reduce class size under the Federal Class Size Reduction Program, and the grant was approved. To get her grant approved, she had to commit to using this new teacher for a purpose that the Federal Government had predetermined, reducing class size. However, the school did not have a class size problem. Instead of being able to flexibly use Federal dollars to address the needs of her school, she had to apply for a prescriptive one-size-fits-all grant. The principal had to make a choice, either she fudges and cheats on the application, or she cheats her children from getting the additional help they need at the time they need it.

This is just another example of the "Washington knows best" style of governing that has been occurring in recent years. Washington did not provide innovation in this school; the innovation came from the principal. Instead of allowing her to address the needs of her school, the Federal rules and regulations constrained what she was legally able to do with the Federal dollars. Instead of having accountability to help every child learn, the Federal Government only requires funding to be spent in the correct way.

One last dramatic example of the accountability that we have under current law was my visit to the school in Holly Grove, Arkansas, in the Mississippi Delta region. This school houses Head Start through 12th grade all in one building. The Delta region is the poorest area of Arkansas, and the poorest area of the United States. There is a large minority population, and the school building is about 50 years old. The area has a very low property tax base, so additional money that the school gets is sorely needed.

We took a few photos at Holly Grove school down in the Mississippi Delta, and this is a picture of some of the ceiling, and you can see the run-down conditions. You can see the flood damage where the water has leaked. It is just about as bad as any school as you could ever see in the inner city. The ceilings are 12 feet high, so it is hard to heat. The lighting is poor. The ceilings are collapsing. You saw the water stains. The outside of the school looks just as bad as the inside. The paint is peeling, and the windows are broken.

Then as the principal, a very fine man, dedicated to his students, as he gave me a tour of his school, I stumbled onto what was a very interesting sight. As I walked by one of the rooms in the school, I noticed that it was full of state-of-the-art exercise equip-

ment: new treadmills, Stairmasters, and Nautilus equipment, weight equipment filling this very run-down school. After seeing the disparity between the condition of the building and this room filled with new exercise equipment, state-of-the-art, brand new exercise equipment, I asked the principal where he got the money to buy all of this state-of-the-art equipment. He answered that he received a Federal grant for \$239,000 and that he was using this money for the allowable uses under the grant, health and nutrition programs. School renovation, however, is not an allowable use under the grant he received. So instead of addressing the most pressing need that his school had, he was forced to address a need identified at the Federal level.

And he told me, he said, Senator Hutchinson, I would much rather have used that \$239,000 for renovations, lowering the ceilings, painting the building, making it a better environment for education, but that wasn't one of the allowable uses under the prescriptive Federal grant. That is not to say that the exercise equipment was not needed. However, in the principal's mind and certainly in mine, there were more pressing needs that could not be addressed because of the current nature of funding of the Federal education program.

Instead of solving this program by creating a new Federal program with new paperwork required, the Federal Government, I believe, should be promoting innovation at the local level with few Federal strings other than the most important requirement that we could have, and that is increases in student achievement.

Principals and teachers should not be hindered from addressing pressing needs in their schools because of rules and regulations from the Federal Government. Instead Federal funding should be used to foster the exciting innovations that are already occurring in many schools all across this country.

Mr. Chairman, again I want to thank you for this opportunity to share my thoughts with the committee and express my appreciation to the committee for your willingness to take a look at this important issue facing America today.

Chairman HOEKSTRA. Thank you.

[The prepared statement of Tim Hutchinson follows:]

PREPARED STATEMENT OF HON. TIM HUTCHINSON, A UNITED STATES SENATOR FROM
THE STATE OF ARKANSAS

Mr. Chairman, members of the committee, I am pleased to be here today to discuss the issue of education reform and the appropriate Federal role in encouraging that reform and innovation. As a member of the Senate Health, Education, Labor, and Pensions Committee, I have been working on this issue for the past year and a half as we attempt to reauthorize the Elementary and Secondary Education Act (ESEA).

The Federal Government currently funds systems, not students. Instead of requiring real results in student learning from our schools, the Federal Government gives them funding and then just asks that they spend it in the required way. In doing so, we are mandating enormous amounts of paperwork and applications to abide by this so-called "accountability." In Florida it takes six times as many employees to administer a Federal education dollar as a State dollar. Florida has 297 State employees administering \$1 billion in Federal funds, and 374 employees overseeing \$7 billion in State funds. Unfortunately, Florida is not an exception, but the rule.

As I have traveled around my home State of Arkansas visiting schools, I have heard many stories about the numerous hoops that schools must jump through in order to receive Federal funding. This is of particular interest to me, since Arkansas has a large number of small, rural school districts that do not have the time or re-

sources to fill out paperwork to comply with Federal rules and regulations. Today I would like to talk about several examples from my State of ways that schools are affected by the laws that we pass in Congress.

I recently visited an elementary school in North Little Rock and talked to a classroom of fourth graders about American government. For 45 minutes we did a give-and-take. They asked me questions, and I asked them questions. This was a very smart group of kids, and I was inspired by their understanding. The key to this inspirational classroom was not any Federal program, but their remarkable teacher. The more schools I visit, the more I am convinced that the key to a good education is good principals and good teachers who are excited about their job and convey that to their students.

After I talked to this fourth-grade class, the principal of the school half-jokingly introduced me to one whom he described as "his boss." He said, "Meet my boss, the Title I coordinator for our schools." While this comment was meant to be funny, it reveals a truth about the Federal influence in our schools. The Federal Government provides only 7 percent of education funding in this country, yet in a school in North Little Rock, Arkansas, the Title I coordinator wields as much influence as the principal.

I also visited another school in Arkansas just recently where the principal had identified a specific need in her school that she wanted to address. She wanted to implement a concept known as point-in-time remediation to help underachieving students before they fall irreversibly behind. To do this, she wanted to hire a teacher who would spend each day working in different classrooms to assist struggling students before they are forced to attend summer school. In her desire to do what was best for her children, she applied for a Federal grant. The Title I coordinator rewrote her grant as a request to hire a teacher to reduce class size under the Federal class-size reduction program, and this grant was approved.

To get her grant approved, she had to commit to using this new teacher for a purpose that the Federal Government had determined—reducing class size. However, the school did not have a class size problem. Instead of being able to flexibly use Federal dollars to address the needs of her school, she had to apply for a prescriptive, one-size-fits-all grant. The principal had to make a choice: either she fudges and cheats on the application, or she cheats her children from getting the additional help they need at the time they need it. This is just another example of the Washington-knows-best style of governing that has been occurring in recent years. Washington did not provide innovation in this school; the innovation came from the principal. Instead of allowing her to address the needs of her school, the Federal rules and regulations constrained what she was legally able to do with the Federal dollars.

Instead of having accountability to help every child learn, the Federal Government only requires funding to be spent in the correct way. One last dramatic example of the accountability that we have under current law was my visit to the school in Holly Grove, Arkansas, in the Mississippi Delta region. This school houses Head Start through the 12th grade all in one building. The Delta region is the poorest area of Arkansas, and the poorest area of the United States. There is a large minority population, and the school building is about fifty years old. The area has a low property tax base, so any additional money that the school gets is sorely needed.

As I toured this school, I could not help but notice the run-down conditions. It is just as bad as any school in the inner-city that I have ever seen or heard about. The ceilings are 12 feet high, so it is hard to heat. The lighting is poor. The ceilings are collapsing, and you can see water stains in these pictures. The outside of the school looks just as bad. Paint is peeling, windows are broken.

Then, I stumbled upon an interesting site. As I walked by one of the rooms of the school, I noticed that it was full of state-of-the-art exercise equipment. New treadmills, stairmasters, and nautilus equipment filled the room. After seeing the disparity between the condition of the building and this room filled with new exercise equipment, I asked the principal where he got the money to buy this equipment. He answered that he received a Federal grant for \$239,000, and that he was only using this money for the allowable uses under the grant—health and nutrition programs. School renovation, however, is not an allowable use under the grant he received, so instead of addressing the most pressing need that his school had, he was forced to address a need identified at the Federal level.

This is not to say that the exercise equipment was not needed. However, there were other more pressing needs that could not be addressed. Instead of solving this problem by creating a new Federal program, with new regulations and new paperwork required, the Federal Government should be promoting innovation at the local level, with few Federal strings other than the most important requirement that we could have—increases in student achievement. Principals and teachers should not

be hindered from addressing pressing needs in their schools because of rules and regulations from the Federal Government. Instead, Federal funding should be used to foster the exciting innovations that are already occurring in schools all across this country.

Mr. Chairman, again I want to thank you for this opportunity to share my thoughts with the Committee regarding the education of our kids. If our local officials are capable of thinking outside the box, then there is no reason Congress and the President cannot do the same.

Chairman HOEKSTRA. The Senator is on a schedule and asked that we just have a few questions, and then he needs to leave.

Under the version of the Straight As proposal, we are combining a number of programs and giving schools the flexibility to spend that money. On the Senate side would you advocate putting some form of school construction as an allowable use in there?

Senator HUTCHINSON. Yes. Under the Senate version it would be an allowable use. While we would never—we would not prescribe to a State that they had to consolidate programs, stick with the current system, they would certainly be willing to do that. It ended up being watered down to a 15-State demonstration program. We would have allowed them to move funds from one program to another or to use funds for needed educational efforts at the local level with the condition being a performance contract to be signed with the Federal Department of Education that they are going to narrow the gap between disadvantaged and advantaged students and see achievement increase for all students. We would provide them maximum flexibility in doing that.

Rather than having a Federal school construction program which would be moving just the opposite way, it would be another prescriptive program where we determine up here that the great need in the country is this, and therefore we establish a new program with Federal funds, are you spending it the way that you said that you would, when true accountability would be are the kids learning and are the achievement scores going up.

So, yes, that money should be allowable to use that for school renovation if that is what is determined at the local level to be the greatest need.

Chairman HOEKSTRA. I will yield to Ms. Rivers.

Ms. RIVERS. Thank you.

I have a couple of questions. I was interested in the comment you made about the administrative workload associated with the Federal programs, because a 1999 GAO study looked specifically at this and found that in general that is very overstated. In fact, they found that of the people who had responsibilities for Title I, they had about 8 hours during an entire year. Do you have any evidence to suggest that that number is incorrect?

Senator HUTCHINSON. Well—

Ms. RIVERS. The administrative load is about 8 hours for the entire year.

Senator HUTCHINSON. I don't really disagree with what you said in your opening statement, that the greater administrative load comes from the State, but I think that problem has to be addressed by the States, and it is far easier to make an influence upon the State legislature or the Governor in reforming the workload that they may experience there.

How do I answer as to GAO? I would love to have the budget to do the kind of study that they did. My sense is from my own experience. I have taught in the classroom. My sister teaches fourth grade, and I visited schools in the State of Arkansas last August, and I continually heard that complaint.

Ms. RIVERS. From teachers?

Senator HUTCHINSON. Both teachers and administrators. Teachers find time that they would like to be spending in class preparation, having to spend it on grants. In Arkansas, and I don't know where GAO did their study, we have perhaps the highest number—I think it is the highest number of school districts per capita in the Nation. We have over 300 school districts. Most of those school districts are very small, and so if there is going to be an application for Federal grants, it is teachers doing it, teachers taking time out of the classroom or taking time out of curriculum preparation in filling out applications because they don't have the money to hire full-time grant preparers.

Ms. RIVERS. You mentioned the grant regarding the exercise equipment. My understanding is that that principal specifically asked for exercise equipment when he filled out the grant. He did not try to get something else?

Senator HUTCHINSON. That is not my understanding at all.

Ms. RIVERS. I can get that and put it in the record.

Chairman HOEKSTRA. Without objection, so ordered.

[The information referred to follows:]

PROGRAM SUMMARY AND ABSTRACT

Name and address of applicant:

Holly Grove School District
P.O. Box 489
Holly Grove, AR 72069

Contact information:

Name: Harry Mayo
Title: Superintendent
Phone: (870)462-3397 Fax: (870) 462-8603
e-mail: JHELMs @ GRCOOP.GRSC.K12.AR.US.

1167

Program title:

This program will serve (insert number): 1 rural public schools 0 inner city public schools

The applicant intends to provide services within the following Empowerment Zone or Enterprise Community (identify if applicable): Enterprise Communities (EC): East Central Arkansas

Please provide the name of each school that will have a Community Learning Center:

Holly Grove Elementary School and Holly Grove High School (Rural)
(Schools on same campus with only one center)

In the schools to be served (please provide the totals for all schools):

Number of students served 150 Community members served 60 Grade levels served Pre-K-12
Students who are: eligible for free or reduced-price lunch 96 % Limited English proficient 0 %

Program Abstract (single-spaced on remainder of page)

The applicant and six other consortium partners will implement a Community Learning Centers Program that is safe, alcohol and drug-free, supervised and cost effective after-school, Saturday, and summer environment for children and their families. The proposed program will address the educational, recreational, health, and social service needs of the residents of the community. Eight outcome objectives were designed to accomplish these goals. The objectives of the project directly relate to the goals of the statute and the needs of the population to be served.

Activities to be conducted will be provided to a total of 150 pre-school children and school-age youth and to 60 adults of the community. These activities will be provided to the participants in seven different components designed to provide both students and parents with a full-range of services allowable in the regulation.

The program will be managed and operated by a full-time project director working closely with an advisory committee consisting of representatives of the participating partners and all individuals and groups in the district to include minorities, handicapped, senior citizens, and other traditionally underrepresented groups. Teachers, parents, students, and citizens will also serve on the committee. The project will be managed utilizing a task analysis procedure to ensure all objectives are achieved.

The project will be evaluated by a qualified and experienced outside evaluator. Both the process and outcome aspects of the program will be evaluated.

EXCERPTS OF HOLLY GROVE SCHOOL DISTRICT APPLICATION FOR 21ST CENTURY LEARNING CENTERS GRANT

* * * 3. *Need 3. To provide access to a quality, supervised recreational program.* With the exception of a very limited summer recreational program sponsored by the city, there are no recreational activities within the district. Children and youth need to be supervised after the school day is over, weekends, and in the summer. These persons also need to be able to take part in appropriate and safe leisure-time activities. In addition, the adults of the community need to be able to take part in leisure-time activities appropriate to them. The percent of youth involved in arrest in the county increased from 6 percent to 22 percent within the past 5 years. Problems are further evidenced by observations of local law enforcement officers and by complaints from local citizens. This need will be addressed by providing a highly organized and structured recreational program after-school, on Saturday, and in the summer. Activities will be geared for young children, older youth, young adults, and older persons of the community. The activities will range from organized team sports to games for older persons and will include individual sports, games, and other activities planned by participants. The program will be designed as learning activities that will boost self-esteem, confidence, and morale to reduce alcohol and drug use and violence.

* * * 5. SUPPLIES

a. Instructional Supplies for Education/Cultural	\$500.00
b. Recreational Supplies	6,500.00
c. Computer Software (Games, adult material)	500.00

d. General Office Supplies Administer Program	1,000.00
Total Supplies	\$8,500.00

Senator HUTCHINSON. I did talk to the principal. What often happens at the local level, they put down on the grant application what they have to put down to get approval. They did—in that particular school somebody told me she was the one who filled out the grant application. He didn't even know what the grant was. He didn't know what it was called, and we came back and did, as I assume you did, to research it. But he certainly told me, and I don't know whether you talked to the principal. He told me, this is not what we need, and I would rather have spent this money on other things. This is what I can get the money for.

Ms. RIVERS. So it was just get the money?

Senator HUTCHINSON. I would suggest to you local schools all over this country do just that. A school district as poor as Holly Grove is going to look for Federal funds wherever they can.

Ms. RIVERS. The other grant that you mentioned, the school district dishonestly filled out its request. They were not asking for a teacher to reduce class size, they were asking for reading support staff, correct?

Senator HUTCHINSON. I wouldn't say that they dishonestly filled it out. They face that kind of dilemma. The principal expressed to their Title I coordinator what she wanted, what she felt that she needed. The Title I coordinator filled out an application that resulted in a classroom reduction grant, not what the principal said that she needed. She, in my visit to the school, expressed her frustration that what they really needed, they were unable to get; that the approval for the grant did not allow them with the kind of flexibility to meet the needs that she saw.

Ms. RIVERS. But the grant application specifies what you are asking for. They are not slotted. You ask for what you want at the outset.

Senator HUTCHINSON. You ask for what you can get, and that is what they can get. They knew that it was going to be a classroom reduction, and the Title I coordinator said you have to use it in compliance with that grant. But the principal's frustration was, that is not what she needed.

Ms. RIVERS. In either of these instances where there was articulated needs of the school districts that could not be met by the 7 percent of money that comes from the Federal Government, did either of the school districts use any of their 93 percent State and local funds to address this concern?

Senator HUTCHINSON. Ms. Rivers, I just wish you could visit the Holly Grove School. It is so desperately poor, their 93 percent is not sufficient to meet the basic educational needs of those students. They have a very low tax base. I suspect that they are using it as best they can, but they also are looking and trying any way they can for that additional 7 percent. Unfortunately, they couldn't use it where it was really needed because it is so prescriptive.

Chairman HOEKSTRA. We will also send a document over which I think reinforces some information that we have from the Education at a Crossroads project—two things, the number of States that have given us the same information that you have, the State of Ohio that says that we get 7 percent of our money and 50 per-

cent of our paperwork and 50 percent of our bureaucracy from getting the information from local school districts, not because we necessarily want it, but because it is mandated by the Federal Government that we collect it.

The other thing that we will do, which I think builds directly on what you were talking about, is that there is a cottage industry in Washington that has put together an overview of all of the different Federal programs that we have here in Washington that specifically is targeted to help local school districts find out what pots of money there are available here so that they can write the grants to get the money; not necessarily say, here is what we need, can we get that. There is actually a cottage industry that has formed here to, as we like to describe it, help local school districts mine for Federal dollars, not necessarily improve their education.

My two colleagues do not have questions for you today, Senator.

Senator HUTCHINSON. Thank you, Mr. Chairman.

I want to say it struck me as so horrendous to visit a school where anybody with a half of grain of sense would say the number one priority in that school is not putting Stairmasters in, and the principal and everybody knew it. They were looking—just as you said, they were looking for Federal money that they could get it, and that is the kind of grant program that we have. We need more flexibility for local school districts to put money where they need it.

Chairman HOEKSTRA. Thank you very much for being here.
Mr. Hickok.

STATEMENT OF EUGENE W. HICKOK, SECRETARY OF EDUCATION, STATE OF PENNSYLVANIA

Mr. HICKOK. Thank you very much, Mr. Chairman. I will submit my formal testimony for the record and really try to refrain from reading too much of it. I look forward to sharing Pennsylvania's view of how Pennsylvania and other States might work with the Federal Government, more of a partnership in improving the education bottom line.

I speak as secretary of education for Pennsylvania. We have about 1.8 million students and 501 school districts, over 3,000 public schools. I speak as chairman of the Education Leaders Council, which is a group of reform-minded State education chiefs from a number of States which are listed in the testimony. They have about 30 percent of the Nation's K through 12 public school students, and I think we share a common concern that much of what needs to be done needs to be driven at the State and local level where public education takes place.

Rather than going on with more formal testimony, let me lay the larger picture out from where I sit both as a former school board member and now as a secretary of education.

I believe it is very important to place the Federal role in formulating and implementing education policy in its proper context, if we could. And that context is shaped primarily through the constitutional principle of federalism. In a day and an age in which it is both fashionable and somewhat lamentable for policymakers everywhere in this country to turn to Washington for both answers to public policy problems as well as funds to solve those problems,

it is very important to try to anchor public policy in long-term principles. The principle of federalism, simply stated, asserts that most public policy issues are best understood as State or local issues.

I am a student of the Constitution, and James Madison wrote in Federalist 45, "The powers delegated by the proposed Constitution to the Federal Government are few and defined. Those which are to remain in the State governments are numerous and indefinite. The former will be exercised principally on external objects as war, peace, negotiations, foreign commerce; with which last the power of taxation will, for the most part, be connected. The powers reserved to the several States will extend to all the objects which, in the ordinary course of affairs, concern the lives, liberty and properties of the people, and the internal order, improvement, and prosperity of the State."

What Madison outlines in this essay is a constitutional principle and a management principle, and both apply with particular significance to the field of education. As a constitutional principle, education is first and foremost a State issue, and if you look at any State budget, you will see it consumes most of the State budget. This is not to say that education is not a national priority or that securing a good education for all Americans is not in the national interest. It is certainly not to say that there is no national role for education policy and administration.

But what the framers recognized, and I think it is well worth our remembering, is that some issues truly are national in scope, maybe even international in significance, and thereby require a national response. Other issues may be local or regional, and thereby are more appropriately resolved at a lower level. And some issues may indeed be national in scope, yet still best addressed regionally or locally.

Education is one of those national issues, in the national interest, many would argue a national security interest, that is best addressed at State and local and regional levels where a great variety of policy options might be formulated and pursued giving rise to a great diversity in education that might enrich the lives of all Americans while ensuring that the national interest is indeed served. Over the years, however, and it has been over a great number of years, the idea that national issues might better be explored and resolved through State, local and regional activities has been shoved aside as more and more Americans are taught that Washington does indeed have the answers.

With all due respect, and I mean this sincerely, the answer to what ails education in this country is probably not going to be found in this building or this town. Instead, it can be found in the talent, energy and the wisdom of the American people. And the best goal of national education policy should be to free up that talent, that energy and creativity and to tap into that wisdom. The best role for the U.S. Department of Education is to facilitate education decisionmaking at the State and local level; provide good, solid, objective research on what works; and help find ways for States to replicate that where they need to—and what does not work—so that we can find out how to avoid those problems; most importantly for empowering the States, find ways to empower the States to seek new ways to respond to challenges in education; at

the same time hold them accountable for those successful strategies.

It seems to me as I look at the role of the Federal Government and the impact it has in Pennsylvania and, I would argue, with many of my colleagues across the country, it is sometimes a very difficult thing to measure, but it is there. It was argued earlier whether or not Federal regulations stifle locals. Perhaps they don't stifle much as they tend to shut them down or turn them off. I can give you countless superintendents and principals that tell me, we didn't think it was worth going through the process to try to get what we can get, or it was such an overwhelming process to consider, that we felt we shouldn't attempt to.

That leads to a second observation, and that is this overwhelming, overwhelming emphasis on just that: process, paper, signatures, making sure that all of the, quote, stakeholders sign on, and very little emphasis on what matters most or should matter most in education, and that is results, impact, what difference it makes. Rather than spend time filling out forms—and I can show you forms that every district has to get to get Federal funding, filling out forms that tell me how many students receive support, how much money was spent, how many hours, how much faculty, staff. If we need forms, let's make sure that they focus on what all of that money does in terms of educational impact. That is what this is about, educational results.

The third observation is that the Federal Government and the States as well really force school districts into sort of a Willie Sutton syndrome. They go where the money takes them. As pointed out by the Senator and others, if the money is available for this, and you need money, you go for this. Rather than letting the locals and the States kind of define where their needs are and to move resources to support those needs, it is far more what the Federal Government says we will make available to support, and you decide whether or not that is something that you want to get money for. You go where the money is.

I would argue that the class size initiative is another good example of that to an extent. We can debate the efficacy on class size. The research is mixed. But regardless of that, when I polled our superintendents in Pennsylvania a couple of years ago about if they had the money from the class size initiative, if they could choose to spend that money for something else, would they want to, and almost 50 percent said, we have other needs than class size. We would like to be able to spend it on those other needs, and obviously at that time they could not. They need the money, but they could have used it for their own priorities.

Next I guess I would—I would offer the observation that Ed-Flex, for example, is an important first step. I think it makes a difference, and Pennsylvania has its Ed-Flex application before the Department as we speak, and I don't want to minimize the potential impact of that. In Pennsylvania we have tried to double or leverage that impact, because now in Pennsylvania every school district in Pennsylvania can come to the Department of Education to request waiver from State mandates, so the very least we can do is send the message that we want to get out of the way and free

up your energy as much as we can, and we hope that the Federal Government will do the same thing.

Having said that, it strikes me, and I guess this is my background in federalism, it is a bit turning things on their head when you have States requesting from the Federal Government permission to do things differently because they have particular needs and a strategy to succeed; turning things on their head because the proper response should be that the Federal Government should follow the lead of the States, and it should be the exception rather than the rule that the Federal Government tells the States what to do.

Surely as long as the Federal Government can hold the States accountable, and I think that is critical, we in Pennsylvania at the State level have a responsibility to every resident of the State to make sure we spend their money in a way that makes an educational difference, and the State has a responsibility when it receives Federal funds to do the same thing for you, but how we do that and why we do that makes a great deal of difference.

Finally, I would argue that the observation on Title I and the impact of an administration probably differs by district. I can take you to some rural districts in Pennsylvania that are doing some great things that have relatively modest Title I or any Federal programs. And I can take you to some school districts where the Title I money is critically important and has a great deal of influence, and the Title I coordinator is probably one of the most powerful people in the school district.

Let's make sure that we know what a difference Title I makes. If there is a way to loosen up the way that we do Title I or any of the Federal programs so there is an educational bottom line, allow the States to do that. Hold the States accountable. And I think a partnership between Washington and Harrisburg and the other States is a partnership that will redefine education, which is what is really needed in this country in the 21st century.

Thank you, Mr. Chairman.

Chairman HOEKSTRA. Thank you very much.

[The prepared statement of Eugene W. Hickok follows:]

PREPARED STATEMENT OF HON. EUGENE W. HICKOK, SECRETARY OF EDUCATION,
STATE OF PENNSYLVANIA

Congressman Hoekstra, members of the committee, thank you for the opportunity to testify today. I will share with you Pennsylvania's perspectives on the Federal role in education and how we can work together to ensure that the Federal Government is a partner, rather than an obstacle, in making sure America's children receive the education they need to succeed.

I also speak to you today as chairman of the Education Leaders Council (ELC), a national organization of reform-minded State education chiefs from Pennsylvania, Arizona, Colorado, Florida, Georgia, Michigan, Texas and Virginia. In our eight member States, we oversee the education of more than 14 million children—more than 30 percent of the nation's K–12 public school students. Our growing membership also includes State education boards, individual State and local board members, and other officials from 31 States.

ELC members believe that education initiatives, policies and practices are most effective when generated closest to the children they aim to serve. Education policies fail when imposed upon communities by Federal mandates and regulations, which focus more on compliance with inflexible formulas and categories rather than improving student achievement.

ELC States have led the way in setting high expectations for all children by creating challenging standards and rigorous assessments set at the local level; increasing

educational options available to parents (nearly 60 percent of the nation's charter schools are in the eight ELC States); and pursuing innovative ways to improve teacher quality.

I believe it is important to place the national role in formulating and implementing education policy in its proper context. That context is shaped primarily through the constitutional principle of Federalism.

In a day and age in which it is both fashionable and lamentable for policymakers everywhere to turn to Washington for both answers to public problems and funds to solve them, it is very important to try to anchor public policy in long-term principles. The principle of Federalism, simply stated, asserts that most public-policy issues are best understood as State or local issues.

James Madison, writing in *Federalist* #45, stated it eloquently more than 200 years ago. In my opinion, his wisdom remains both timeless and timely: "The powers delegated by the proposed Constitution to the Federal Government are few and defined. Those which are to remain in the State governments are numerous and indefinite. The former will be exercised principally on external objects, as war, peace, negotiations, and foreign commerce; with which last the power of taxation will, for the most part, be connected. The powers reserved to the several States will extend to all the objects which, in the ordinary course of affairs, concern the lives, liberty and properties of the people, and the internal order, improvement, and prosperity of the State."

What Madison outlines here is both a Constitutional principle and a management principle, and both apply with particular significance to education. As a Constitutional principle, education is first and foremost a State issue. This is not to say education is not a national priority, or that securing a good education for all Americans is not in the national interest. And, it is not to say that there is no national role in education policy and administration.

It is worth exploring the special wisdom embraced in the idea of Federalism. The Framers recognized—and we would do well to remember—that some issues truly may be of national (or international) significance and thereby require a national response. Some issues may be local or regional, and thereby be more appropriately addressed at that level. And some issues may indeed be national in scope, yet best addressed regionally or locally. Education is one of those national issues best addressed at the State and local level, where a great variety of policy options might be formulated and pursued, giving rise to great diversity in education that might enrich the lives of all Americans, while ensuring the national interest is served.

Over the years, however, the idea that national issues might better be explored and resolved through State, local and regional activities has been shoved aside as more and more Americans are taught that Washington has the answers. With all due respect, the answer to what ails education in this country cannot be found in this room or in this town. Instead, it can be found in the talent, energy, creativity and wisdom of the American people. The best goal of national education policy should be to free up that talent, energy and creativity and to tap into that wisdom. The best role for the U.S. Department of Education is to facilitate education decision-making at the State and local level; provide objective research of what works and what does not; and develop ways to empower the States to seek new ways to respond to the education challenges of the 21st Century, while holding them accountable for the success of the strategies they pursue.

I firmly believe that the Federal Government should tailor these programs around what already is working in the States, instead of a top-down approach that stifles creativity and innovation in education. Education is a \$14 billion enterprise in Pennsylvania, with just over 95 percent of the funds coming from State and local sources and just 3 percent coming from the Federal Government. Clearly, education must remain the purview of State and local officials.

In Pennsylvania, Gov. Tom Ridge has implemented a reform agenda that sets high standards for students, teachers and schools, and holds them accountable for results; respects local control; rewards results and holds districts accountable for failure; empowers parents and communities to become more involved in their children's education; harnesses the power of technology to improve student learning and streamline bureaucracy; and eliminates bureaucratic hurdles wherever possible.

Indeed, I believe these are the essential ingredients to substantive and lasting education reforms that will make a positive difference in our children's lives and prepare them for a lifetime of success.

How can the Federal Government be our partner in implementing these reforms?

First, you should be mindful of the limited role of the Federal Government in education. Education is the responsibility of the States and local school districts. Recognizing that the Federal Government will play some role in education, however,

I believe you should create programs and craft guidelines with an eye toward what is being done by State reformers like Gov. Ridge and others.

The Federal Government can work to empower States like we are empowering our school districts, including our most academically challenged ones, with unprecedented new authority to make dramatic improvements.

Gov. Ridge's top legislative priority this year—the Education Empowerment Act—identified 11 school districts, including Philadelphia, where half or more of the students essentially are failing reading and math despite per pupil spending in excess of both State and national averages and as high as \$10,000 per pupil. These 11 districts now have new tools, more flexibility, and more targeted resources to implement programs to turn themselves around and ensure that every child receives a quality education.

In each distressed district, local Empowerment Teams, which include teachers, administrators, school board members, business and civic leaders, and other concerned citizens, will develop new improvement plans—plans that reflect a new way of doing business in a new century.

The districts could choose to hire talented new leaders who don't have traditional backgrounds in education to run their schools, or transform any or all schools into charter schools or independent schools, where the power to change is in the hands of building leaders, not a central bureaucracy. They could contract with for-profit companies to provide educational services to students. The possibilities are limited only by the creativity and innovation of local leaders. If after 3 years the districts are unable to turn themselves around, the State would take over.

While I'm not advocating that the Federal Government become as dramatically involved in the day-to-day operations of local school districts, you can work with the States to establish consequences for districts that are failing to give their children even a mediocre education.

This new Pennsylvania law also gives every school district the chance to apply for waivers from mandates they believe hinder their efforts. We'll protect the health, safety and civil rights of our students, but nearly everything else is on the table.

We will ensure that our mandate-relief program and application process are consistent with Ed-Flex, making it easier and more efficient for school districts to apply for relief, receive it, and invest their energies and resources doing what they do best: teaching our children.

Under Ed-Flex, we will be able to free local districts from red tape and burdensome requirements, allowing them to focus on their needs and priorities rather than on strict Federal mandates. Ed-Flex represents an important first step in giving States the flexibility to improve their education systems, and is one more tool in the arsenal that will make it easier and quicker to implement State and local reform initiatives. It will enhance our ability to make Federal programs an integral part of our reform efforts instead of an obstacle.

For example, because of rigid Federal guidelines for Title I, some schools where students needed additional assistance in reading were not able to use Federal funds, while others in the same district could. In one of our urban school districts, three schools didn't quite meet the criteria necessary to be eligible for Title I funds. The result: more than 300 poor children in these schools were unable to get the additional help they needed.

Under Ed-Flex, this school district and others, working with the State department of education, will be able to better manage the Federal funds so that all children will receive the extra help they need.

Ed-Flex also will enable Pennsylvania to expand professional development opportunities for teachers.

Historically, Federal rules limited Title II professional development funds for math and science teachers. Because of Ed-Flex, school districts will be able to target Title II funds for professional development for all teachers.

While Ed-Flex is an important step forward, other Federal programs make for great sound bites but will do very little to improve educational opportunities for our children.

For example, I believe the Federal class-size reduction initiative is a flawed, misguided program. It's a one-size-fits-all approach that doesn't respect local control and forces districts to hire new staff while their needs might be elsewhere. It has been touted by some as a cure-all for what ails public education in America. It subscribes to the notion that if we hire 100,000 new teachers, then student performance will rise dramatically. This logic is flawed in two ways.

First, contrary to the rhetoric of many education-establishment groups, research on class size is mixed. I have yet to see evidence that conclusively demonstrates the success of class-size reduction initiatives elsewhere. Just last week, the Heritage Foundation released a study that found being in a small class does not increase the

likelihood that a student will attain a higher score on the NAEP reading test, and that children in the smallest classes do not score higher than students in the largest classes. Based on other solid research studies, we do know that there is a direct correlation between a teacher's knowledge and mastery of his or her subject and the performance of students. That's why States like Pennsylvania have implemented tougher standards for teachers.

Next, especially in a diverse State like Pennsylvania, class size doesn't appear to be a major concern for many of our superintendents. Almost half of the superintendents who responded to a department survey said they would prefer to have more Federal funds for special education than for class size reduction. More recently, other district leaders have said that they plan to refuse any future Federal funds for class size reduction, in part because the funds are only good for 1 year and because they would be forced to continue to pay for a teacher regardless of whether or not one is needed. One official even referred to this program as "false advertising."

Our superintendents and other school officials continue to grapple with special education. In Pennsylvania, we have made historic increases to help offset the significant costs, and I applaud Congress for its steps this year to move toward full funding of the Individuals with Disabilities Education Act (IDEA). Every year, the Republican-led Congress increased spending for special education beyond the Clinton Administration's proposal. With this spring's action, the House again has delivered for these special-needs children. If the Federal Government meets its responsibilities, more funds will be available to States and local districts to implement programs to meet their needs—from hiring new teachers to developing programs for at-risk students to purchasing more technology to reducing property taxes.

The States are doing what they can to ensure our special needs children receive the education they need and deserve. But funding isn't the only concern. Our schools often are hamstrung by the paperwork that is required.

For example, the U.S. Department of Education's Office of Special Education Programs (OSEP) calls for a personnel data collection system, even though Congress removed that provision during the reauthorization of IDEA in 1997.

Other offices within the Department of Education ask for virtually identical data about special-needs students, although in different formats.

The result: local school officials spend less time on instruction, and more time completing mountains of paperwork—pushing paper rather than educating children.

All Federal agencies, especially education, can learn from Pennsylvania's successful eGrant program. We're using technology to streamline the application process for the State and Federal grants that we administer. This first-of-its-kind system enables schools to apply for grants online; make changes or corrections; and follow their applications through the approval process. The results: virtually flawless applications reviewed more quickly, allowing funds to be invested in the classroom sooner.

We also have harnessed the power of technology to hold our schools accountable and, for the first time, identify an academic bottom line.

Pennsylvania was one of the first States in the nation to publish online school report cards, or profiles, containing important information about our public schools. In April, our school profiles Web site received more than 500,000 hits—proof positive that Pennsylvanians are taking full advantage of this powerful resource. And, we implemented this initiative without any Federal intervention whatsoever.

I know that there were efforts this year to strengthen the accountability measures of Title I by adding additional reporting requirements to our State and local report cards. While I do support stronger accountability for Federal programs, I'm concerned that some of these approaches make decisions about State accountability systems in Washington instead of giving State agencies the opportunity to develop their own accountability model that best serves the needs of the individual State.

We must be careful to stay away from multiple report cards that lead to confusion for parents who could receive a number of progress reports about the performance of students in their State. Often, these multiple cards provide duplicative or even conflicting information on school performance. States, working with local officials, parents and teachers are in the best position to develop report cards that meet their needs.

In addition, a recent report by the National Governors Association shows that many States are being forced to maintain two accountability systems. The first system is an accountability system that States have established for all students, and the second is the required Federal accountability system for only Title I students. States should be permitted to use their State accountability system for all kids and not be required to use an additional system for Title I students if the State's ac-

countability requirements are substantially similar to the Title I accountability requirements.

Pennsylvania also will be one of the first States in the nation to implement Standard and Poor's School Evaluation Service (SES). This powerful tool will take disparate "inputs" from variety of sources—State, local and federal; analyze it; and identify strengths and weaknesses in each district. Pennsylvania's 501 school districts will be able to compare themselves to similar districts; to others within their region; and to districts statewide. State-level officials will be able to better identify strengths and develop and target programs to shore-up our weaknesses. All this will be done using existing resources and without imposing new mandates on local districts—a critical aspect of the program.

States also are working to strengthen the nation's teaching force. In Pennsylvania, Gov. Ridge's teacher-quality plan calls for all teachers to engage in training and professional development to keep their certificates. It also calls for future teachers to earn higher grades to enter and graduate from colleges of education; take more rigorous courses in the subjects they want to teach; and score higher on certification exams. We also are implementing a new test for veteran teachers, which will be used to target professional development where the needs are greatest.

The Federal Government can partner with the States by providing incentives to help States continue to strengthen their teacher-preparation programs. Federal funds can be targeted to States that develop programs that have as their goal proven strategies that increase student learning, rather than simply funding existing programs.

Empowerment, accountability, results—the tenets of successful education reforms. The nation's children will be best served if you empower Governors and State legislatures, working with parents, teachers, school boards and concerned citizens at the grassroots, to direct Federal resources where they are needed most. Let us tailor our education policies to meet our unique and individual needs while furthering national educational objectives. And, hold us accountable for prudent and responsible use of funds, and work to ensure that the dollars deliver results.

Chairman HOEKSTRA. Dr. Sclafani.

STATEMENT OF SUSAN SCLAFANI, CHIEF OF STAFF, EDUCATIONAL SERVICES, HOUSTON INDEPENDENT SCHOOL DISTRICT

Ms. SCLAFANI. Yes. Thank you very much, Mr. Chairman and members of the committee. I am delighted to have an opportunity to speak to you today.

As I sit here, I am struck by the fact that one's perspective is so determined by one's position. I would argue for the local level in the same way perhaps that Dr. Hickok would argue for the State level and others might argue for the Federal level.

We have seen a lot of progress in the Federal funding in the grant programs over the years, and we are delighted to see that some of the disincentives that were the unintended consequences of Federal grants have been removed. The fact that Title I used to penalize school districts for improving performance of children because then they would be dropped from the program is gone.

In special ed, the fact that we were funded on the number of children that we identified in special education rather than using our funds to prevent children from having to be in a special education program by doing early intervention; and now that we are funded on a percent, that enables us to do that. We like, too, the Ed-Flex waivers, and this is where the perspective comes in. We don't see why it should have to go to the State to approve our local waivers. If indeed we are interested in local control and local accountability, then we believe that ought to happen from the school district level. And the other problem with Ed-Flex is that it does not apply to special education so that our regulations there are continuing.

The challenges that we have, and we do have a staff for our Title I program, we are a school district of approximately 210,000 children; 74 percent of them qualify for free and reduced lunch. We are a district of minority children, 53 percent Hispanic, 35 percent African American, 3 percent Asian and 9 percent white. We have about 11 percent of our students in special education programs, and we are hoping to reduce that through our opportunities to do early intervention. We are very interested in the Elk Grove model and have done a similar thing in our district, and where we have piloted that program, we have seen a major reduction in the number of children who are, in fact, qualified for special education.

We get about \$73 million a year in Federal funds, and out of a \$1.2 billion budget, clearly that is not the major funding of any of our programs, but it does give us additional funds with which to target our most at-risk and needy children.

Our issue with Title I is really the issues of maintenance and effort and comparability, and the kind of detailed accounting that has to be done in order to maintain that from 1 year to the next. We find that in our own district, that we have people who have to do that on a daily basis, a weekly basis, a monthly basis, because to wait until the end of the year to figure it means you are stuck if you are not there. And as staff people move from school to school, we have 288 schools, we find that changes those calculations, and so we have to do them on a regular basis.

The other piece of that is that one of the ironies of some of the grants being tied to the Title I characteristics, the school improvement funds, for example, are based on data that is at least 2 to 3 years old because that is how frequently the data can be updated at the national level. So we now are giving funds to schools that are no longer low-performing that are designated for schools that are low-performing because they have moved out of that area. We talk about this is going to help you maintain your efforts, but the time lag is an issue.

The reading excellence is another example where we were able to fund the school with the largest number of students who are economically disadvantaged, the school with the largest percent of children who were economically disadvantaged, and then any low-performing schools. With 182 elementary schools, that meant that we were able to fund 11 schools through this grant process. That is, the most, highest, number of students, the highest percent was equivalent across our State, which meant that we, too, had two schools that qualified under that category, as did every school in our State, and it didn't really target those funds to where we are.

We believe very strongly in the importance of reading, and we fund about \$4 million in extra staff and services to our schools specifically for reading out of our local funds, but it would have been better if we could have had the reading excellence funds working along with those dollars at the schools at which they were most needed.

We see that in special education the regulations have become really the weapons of battle between parents and schools in many cases. The letter of the law becomes what is held to, and it is because parents and teachers and principals are not working together in the best interests of children.

So while I understand the fight to maintain regulations there to serve children well, I really wish that we could have fewer regulations and only raise that as an issue where school districts are clearly not serving the needs of children, as evidenced by requests for due process to the State level and the kind of litigation that is going on.

If there is a problem in a school district, certainly then there needs to be a requirement, a higher level of monitoring to ensure that the regulations are followed.

The bottom line for us is that schools do need the money for educating their children, and they do go where the money is. They do find the grants that are able to fund them, and I don't think that is a matter of being dishonest, it is a matter of saying, if I can fund this portion of my need with my Federal funds, that frees up other funds on my campus to use for other purposes. I think that is what they are trying to do.

But if we could reduce the amount of regulation and the time spent on compliance, in special education, as many of you know, we go through a process on an annual basis where the State comes in to audit our records because they are going to be audited by the Federal Government, and any single discrepancy in any single file is the fatal flaw, and the district fails on that principle.

Well, as I said, we have 188 elementary schools. We have 288 schools all together. It may be that on 1 day in one meeting someone makes an error, and yet that puts the whole school district into a compliance mode that is not really worth the amount of time that is put into it.

In Texas we have had an accountability system in place. We started in 1984 with a curriculum that was set statewide. We moved from there into testing and then into an accountability system that holds school districts accountable for the performance of their schools. Our district has one as well that adds to the concept of a snapshot of performance credit for the progress that a school is making because we feel that it is so critical to give schools credit for where they started and where they are now, and not just the snapshot of where they are at the moment.

We have been working on decentralizing authority and funding to our schools. We are moving to a weighted per-pupil funding basis for the 2000–2001 school year, which means all dollars from the district are going to schools based on a formula that says if you have the average child, you get credit for one. We add a 10th of a student funding if the child is bilingual. We add another 10th if the child is economically disadvantaged, so we are able to give to the schools the dollars generated by the children that they have. That, we believe, will enable them to better serve the children than our formerly saying, you have 22 children, you get one teacher. Our schools are finding that those who have the neediest children need the additional dollars with which to provide the services, and we think then that Title I will, in fact, become on top of the supplement a better funded program because of that.

But we are also giving them the accountability, and we are saying that there are specific performance indicators that they have to meet. We have 5-year goals and annual goals, and our schools know that that needs to happen. If they are not able to meet those,

we have changed principals because we feel very often it is an issue of leadership, we have changed groups of teachers where there is kind of a negative synergy where this group doesn't believe that change is possible or improved achievement by the students they have is possible, and in some cases—in one case we restaffed the entire school because they were not working for children, they were working and fighting among themselves as adults.

I would like to see the Federal Government fund, even if it is just the 50 largest school districts in the Nation, directly rather than through the States. Give it to us as a block fund, hold us accountable for our results, and then have a process, a contract, to say this is what the consequences will be if you are not able to improve the performance of your students.

That is the bottom line. And as we know, what gets done is what gets measured. If everyone is focused on improving the achievement of children, we found in our district that it has been a straight-line improvement in the quality of education offered to our children and the quality of achievement that has resulted.

Perhaps it is a more radical thing to suggest, but right now what happens is the funding goes to the State; the State monitors us. The Federal Government comes in to audit the State, and, of course, audits because we are the largest district, and it funds all of the very large districts to be sure that the State has audited appropriately. So we end up with double audits, and those dollars could be done by the single audit directly by the Federal Government to the large school districts and leave us the additional dollars as a block grant. We would like the flexibility of being able to say this year we need more money in this program than in that, and to be able to do that to meet the priorities of the district. Thank you.

Chairman HOEKSTRA. Thank you very much.

[The prepared statement of Susan Sclafani follows:]

PREPARED STATEMENT OF SUSAN SCLAFANI, CHIEF OF STAFF, EDUCATIONAL SERVICES, HOUSTON INDEPENDENT SCHOOL DISTRICT

Mr. Chairman and members of the House Budget Committee's Education Task Force, I am here today to speak with you on behalf of Larry Marshall, President of the Board of Trustees and Dr. Rod Paige, Superintendent of Schools of the Houston Independent School District (HISD). We appreciate the opportunity to come before you today to provide testimony about a subject that we have very strong convictions about, the delivery of educational services to our children.

The Houston Independent School District is the largest district in Texas and the seventh largest in the United States. It serves 211,000 students who are predominantly minority—53 percent Hispanic, 35 percent African American and 12 percent White and Asian. Seventy-one percent qualify for the Free and Reduced Price Meal Program, and 11 percent are served in special education programs. The Houston Independent School District received approximately \$72,635,000 from categorical and competitive Federal programs in 1998–99. Of this, \$1.4 million came from competitive grants under Title VII Bilingual. The largest component of categorical funding was Title I funding at nearly \$55 million, followed by Individuals with Disabilities Education Act funds of over \$8.5 million.

I would like to talk with you today about the financial burdens placed on school districts by Federal programs. I have divided the issues into two categories: the first category is the issue of unfunded mandates created by Federal departments and the second is the issue of the method of funding Federal grant programs.

UNFUNDED MANDATES

INDIVIDUALS WITH DISABILITIES EDUCATION ACT AND AMERICAN WITH DISABILITIES ACT

In 1975, the United States Congress passed the Individuals with Disabilities Education Act (IDEA) that requires school districts to provide education related health and medical services to students with disabilities and to develop individual education plans (IEP) for service delivery. Congress passed IDEA without providing adequate or additional special education funding; this consequently left school districts ill-equipped to meet the funding demands of IDEA requirements. When the program was first announced, districts were told that the Federal Government would fund 40 percent of the costs. The district currently spends between \$70-\$80 million per year to fund the costs of special education programs. To date, the Federal funding has never provided more than 12 percent of the costs. While we believe that all students should attend school in the least restrictive environment, the costs of the program for small classes, additional staff, and specialized transportation services are a significant burden for the district.

To meet the regulatory requirements of IDEA, school districts find that they have to employ or contract for speech therapists, speech pathologists, nurses, audiologists, diagnosticians, psychologists, physical therapists, occupational therapists, and other clinicians as required for students enrolled with special needs. In many cases, parents have taken school districts to court and sued under the provisions of IDEA and the Americans with Disabilities Act (ADA) to provide additional or more comprehensive clinical services to their disabled children. While the MEDICAID program reimburses school districts for part of these costs, it does not come close to the full costs of those additional medical services.

The American with Disabilities Act (ADA) requires that school districts renovate buildings to enable all persons, regardless of disabling conditions, to have access to all parts of the building. Older facilities require significant renovations, such as ramps to entrances, widened doorways, revised seating arrangements in auditoriums, elevators, lifts for stages, added plumbing, and other similar changes. As much as \$100 million in local funds has been spent over the last 15 years to accomplish these improvements, yet no assistance came with the Federal mandates for action.

ASBESTOS

The district has spent over \$100 million for abatement of asbestos in district facilities. The requirements for this program are extensive and costly, yet the current wisdom is that in some cases the materials would have been better left where it was. There was no assistance from the Federal Government in meeting this unfunded mandate. It should also be noted that the AHERA (Asbestos Hazard Emergency Response Act) program was never applied to any public buildings other than school districts.

ENVIRONMENTAL PROTECTION AGENCY (EPA) REQUIREMENTS

The EPA has established programs to reduce emissions from district vehicles. While the district agrees that clean air is important, no funds are available for retrofitting current vehicles or for higher costs to meet the new requirements. In urban districts such as Houston where 70 percent of the funding comes from local taxpayers, it is difficult to maintain a fleet of new vehicles that meet current standards. The average age of our vehicles is over 10 years. The new standards are far more stringent than those in place when the oldest vehicles were purchased. In Houston, there is a proposal for construction work to begin after 6 o'clock and go through the night in order to reduce emissions from heavy equipment. The voters of Houston have approved over \$675 million in renovations and new construction to be completed over the next 3 years. Implementation of such a mandate would greatly increase the cost of district construction programs.

AGRICULTURE DEPARTMENT PROGRAMS

The Agriculture Department implemented an after-school snack program this last year. The district was pleased to see that a snack program could be added to the district's program, but the district quickly discovered that the Agriculture Department reduced our Free and Reduced Price Meals (FRPM) funding by rounding down the reimbursement rate to the next lower whole penny (resulting in a loss of about .8 cents) per student to help fund the snacks program. The district is now offering

both programs, but receives no more dollars than it used to receive from the FRPM program.

GRANT PROGRAMS

CLASS-SIZE REDUCTION TEACHERS

The Class-Size Reduction Program provided an opportunity for school districts to add teachers to reduce class sizes. The district was delighted to participate in this program, and it is one we endorse. However, the regulations attached required that school districts hire first year teachers for those positions. Since the district believed that this requirement did not serve students well, our school district hired experienced teachers and assumed the costs of the additional funding required between new teachers and the experienced teachers.

FUNDING FOR BILINGUAL EDUCATION

This has become a major issue in our district's budget. Over the last decade the increased immigrant population in Houston has more than doubled the percentage of Hispanic students in our district. This increase has added costs for the recruitment of bilingual and English as a Second Language (ESL) program teachers, additional materials required to offer instruction in both English and Spanish, and stipends paid to ensure the retention of trained bilingual and ESL teachers. The only Federal funds available to address the results of the Federal immigration policy are provided on a competitive basis. Thus despite the needs of the students in Houston, the funds may go to an innovative proposal from a school district with fewer limited English proficient (LEP) students or districts with higher local funding levels than ours.

TITLE ONE AND TITLE SIX

Title I, Part A has provided funding to schools that assisted schools to accomplish the following academic growth, as measured by the State-mandated Texas Assessment of Academic Skills (TAAS):

- TAAS scores increased from 78.53 percent passing in reading for 1996–97 to 81.00 percent in 1997–98;
- TAAS scores increased from 75.30 percent passing in mathematics for 1996–97 to 80.96 percent in 1997–98; and
- TAAS scores increased from 82.96 percent passing in writing for 1996–97 to 86.51 percent in 1997–98.
- Overall TAAS results for students in Title I schools increased over and above the scores for students districtwide as follows:
 - In reading, Title I students averaged 84.51 percent compared to districtwide students averaging 81.00 percent.
 - In mathematics, Title I students averaged 80.94 percent compared to districtwide students averaging 78.00 percent.
 - In writing, Title I student average 86.51 percent compared to districtwide students averaging 82.08 percent.

Changes made in the last reauthorization of Title I were improvements in a number of ways. Current guidelines:

- Provide more programmatic and financial flexibility for schools and districts;
- Require improved academic accountability;
- Allow more local control;
- Impact more students because of the schoolwide concept;
- Support the ex-flex waivers process; and
- Support school reform.

These changes have enabled the district to use the funds as it sees fit and have resulted in the achievements cited above.

While the Federal Government has allowed local education agencies greater latitude in developing individual district programs based on local needs assessments over the last decade, congressional reauthorization of programs involves a great deal of compromise and attention to the goals of special interest groups. This results in mandates and requirements included to "protect" students whose rights might otherwise be at risk in local districts. This process of political program design requires all districts to spend time in documenting compliance with rules that were unnecessary in the first place.

For example, the district currently spends a minimum of three mandays per month creating the documentation of use of Federal funds as a supplement to district funds, rather than supplanting. To demonstrate comparability—that the district is not spending less in local funds in Title I schools than it spends in non-Title I

schools-the accounting department staff must compute every expenditure for staff, materials, equipment, and contracted services. With staffing, this is particularly difficult to do on a monthly basis, since one must forecast stipends that are paid annually or semi-annually as part of the equation. However, it must be done monthly so that if a discrepancy is discovered it can be remedied over the rest of the year. If that does not happen, the total dollars spent for the year will not demonstrate the desired maintenance of effort and the district will be out of compliance. Since actual salaries of individual teachers are used, the whole equation is thrown off whenever a teacher leaves one school and is replaced by a teacher with more or less experience. In a large urban district, this happens frequently, forcing the accounting department to recalculate their year-to-date figures and intervene to recreate the desired balance.

Clearly, this procedure has nothing to do with the district's commitment to equity nor does it ensure increased levels of student achievement. An alternative would be to allocate the dollars according to the numbers of eligible students and hold the districts responsible for results. If a particular district cannot demonstrate improved student achievement, the State would be required to audit the programs serving the specific students and place the district under a technical assistance requirement until results improve. Otherwise the district would be able to apply the funds to programs and not to staff completing forms to demonstrate compliance. If this option were in place, fewer dollars would need to be allocated to State departments of education and central offices, and more would go directly to student services.

The Title 6 program stands in contrast to the Title I program. Title 6 makes a significant difference in the lives of over 212,000 students in Houston ISD and over 13,000 students in surrounding nonprofit private schools and neglected and delinquent facilities. The program provides on-going professional development to 15,000 teachers. Title 6 provides services to ten local district reform programs and projects, as well as fifty-four nonprofit private schools and facilities within the Houston Independent School District's boundaries. The major emphasis of the Title 6 program is to provide for services that support reform efforts through innovative education program strategies consistent with the eight National Education Goals and the GOALS 2000: Educate America Act under Public Law 103-382. District approved programs and projects were easily funded under these parameters.

Title 6 funds have provided a mechanism to influence and provide opportunities for advancement in nationally identified areas such as technology, readiness skills, parental involvement, curriculum, school improvement, higher order thinking skills, combating illiteracy, and increased professional development for teachers and parents. All Title 6 funded programs have been designed specifically to improve overall student achievement.

The majority of the programs funded through Title 6 are unique to Houston and several include on-going assessment, for example, an initial pre-test to determine needs, measurable activities for growth, and on-going assessment of progress. These programs are designed to improve teaching and learning as well as meet the educational needs of students from all ethnic and learning backgrounds.

As one compares the Title I and Title 6 programs, it becomes clear that Title 6 is effective in raising student achievement without all of the compliance requirements of Title I. One can deduce from that that the time spent complying with Title I requirements could be better spent focusing on improving student achievement. The Federal Government should identify those districts where student achievement is not improving and use the manpower currently dedicated to managing compliance to assist those districts in more effective planning and implementation. Successful districts could dedicate the 3 days per month spent on comparability and maintenance of effort documentation to providing more effective services to schools.

RECOMMENDATIONS

Local school districts are responsible for the quality of education provided to students. Districts use the funds available from local taxpayers, State government, and the Federal Government to create the best programming possible to meet the needs of their students. Federal funds are certainly a welcome source of funding for meeting the needs of educationally disadvantaged students, special education students, immigrant students, limited English proficient students, and others. However, local school districts can best design those programs when the regulations are limited to expressions of the intent of Congress in making the funds available. The Federal Government should make the funds available and hold districts accountable for the performance of all of its students.

The goal of Congress is to ensure an educated citizenry. It can do that best by establishing the parameters, providing the funding and leaving the program details

to the practitioners. Each district has a local school board elected to ensure the effectiveness and efficiency of the system. Local school boards are ready and able to be held accountable for the performance of their students. That should be the measure of whether school districts have used the funds effectively.

If the Federal Government wanted to ensure the maximum application of Federal dollars to meet the educational needs of students, it could make block grants to the large urban school districts. Such block grants would reduce the amount of money spent to regulate the Federal dollars provided to the school districts. At the present time, Federal grants go first to the States, who take 10–15 percent off the top for review and regulation. The State establishes a monitoring system to ensure effective use of the funds. However, when the Federal Government comes into a State to audit the State's effectiveness in using Federal funds, it always audits the largest school districts as well. That means that large school districts are audited by both the State and Federal Government, a duplication of effort and a major intrusion on the time school districts could be spending refining their programs to better serve students.

The Federal mandates for school districts are based on the need to protect citizens from dangers identified in the environment or from infringements on citizens' rights. School districts understand these demands, but they are forced to address them with the dollars which were provided for and which should be used to educate all students to high levels. It is not possible to spend the same dollars in such different ways and expect the results in student achievement this nation requires for a productive future. School districts are willing to assume responsibility for doing what they do best—educating students. If they are to also undo societal problems, clean up the environment, and renovate educational facilities, they must receive assistance from the entities mandating the changes. We are ready to do our best to meet the many demands upon us, but we need the assistance of Congress in ensuring that our funds are used first and foremost to educate our students.

Chairman HOEKSTRA. Mr. Hilleary.

Mr. HILLEARY. Thank you both for testifying, and, of course, you are both singing our song, the Chairman's and my song, and a lot of us who really want to see the Federal Government have fewer strings with a lot of things that we do in education.

Three questions really for both of you, and if you could both address all three. One is do you use statistical value-added analysis with your children as they go through the grades? And if so, if you do have that analysis available, how do you utilize it?

Ms. SCLAFANI. We do not do the Sanders model of value-added assessment, no. We are considering doing it in our school district. The State is not doing that. We still look at the snapshot of how students are doing by grade level each year.

May I mention that we do give our principals a longitudinal look by teacher so they are able to help teachers plan their professional development. So if all of the children in a particular classroom consistently miss specific objectives over the years, it is probably the teaching methodology as opposed to the children. So we do provide that kind of longitudinal data to work as an aid to the professional development of our teachers.

Mr. HILLEARY. But you are considering the Sanders model?

Ms. SCLAFANI. Yes.

Mr. HILLEARY. Do you see merit in that?

Ms. SCLAFANI. Yes.

Mr. HICKOK. There is great merit in the Sanders model. We have started a variation on it with regard to a performance incentive program for schools. That is, as a school is evaluated over time through a series of Pennsylvania tests based on the academic standards of Pennsylvania, as it improves upon its performance over time, the value added, if it is over and above a predicted im-

provement, then the school itself receives a cash award from the State to be spent on an educational product or service or event.

So the goal here is to find ways to create an incentive not for schools to compete with one another, but for schools to compete with themselves over time. As that is fully implemented, that will give more of a value-added study because you will be testing the same students as they go through the process.

Mr. HILLEARY. One of the things that I found when I met with Dr. Sanders, if the same student got a teacher who is in that bottom 10 percent 3 years in a row, they were basically lost; 2 years it was hard to recover them. I am a big fan of it.

Do either one of you, I assume you don't, have any site-based management in your individual schools to the extent that a local principal has the authority to hire and fire? I am assuming you don't, but do you?

Ms. SCLAFANI. We have shared decisionmaking at our campuses, and we have a State law that says only the principal can hire. He can fire with documentation as well. We do have that within our school system in our State.

Mr. HICKOK. I think you can find examples of it in Pennsylvania. We have a traditional approach to public education. I think you will see more of that flexibility in our charter schools, which provide more autonomy for management decisions in the building principal or the chartering organization.

Mr. HILLEARY. Lastly, we have talked a lot about Federal intervention that is not helpful. We all agree, I think, that money is helpful. Is there anything besides money, in other words, is there any Federal involvement, any strings, any requirements, is there a function other than providing money, including coming up with a program or whatever, that you all would think would be extremely useful that the Federal Government is uniquely qualified, or at least adequately qualified, to perform? I am of the opinion that it is hard to find something like that, but is there something that we could be doing that would be actually helpful? And, of course, when we start out being helpful, we often move to being unhelpful fairly quickly. Is there something that you can think of that we could be doing programmatically or otherwise? Forget the money; I know that you want money.

Ms. SCLAFANI. We find the information provided by OERI is helpful to us. Taking a look at the data nationally gives us a better perspective as to where we stand as a local district and as a State. The opportunity to see the research on the various programs that are available and in use around the country saves us the time of having to implement and do the research ourselves and determine whether that is, in fact, an effective program.

Mr. HICKOK. I would share that observation. I think the Federal Government in education should provide information on what works, a clearinghouse for data and things like that because of where they sit over all the system. The further away you get from the day-to-day decisionmaking of a school building, the more difficult it is to make the good decisions. That is the geometry where the Federal Government sits right now.

Mr. HILLEARY. Thank you very much, both of you.

Chairman HOEKSTRA. Ms. Rivers.

Ms. RIVERS. Thank you, Mr. Chair.

I have served at all levels, the local school board, the State level and the Federal level. The local school board is the most difficult job because that is where the hands-on work has to be done, and that is where the community interacts.

One of the things that I have carried with me as a legacy from my time on the school board is the tremendous unhappiness with the bad rap that educators get in this country, and I would be curious if you think for the most part that public educators don't have any creativity, no ingenuity, are satisfied with the status quo? These are some of the allegations that are put forward. What do you think in your day-to-day jobs about people who are dedicated to education?

Ms. SCLAFANI. First of all, they are dedicated to education. We have people who are spending their lives, not just 8 to 3:00, working for the education of children.

I think that the surveys are so difficult to understand. When we do surveys of parents, the results are glowing. Eighty-five, ninety percent of them are delighted with their schools, even when the schools are not doing as much as we think that they ought to be doing for their children.

I think that there is a difficulty in our society of undervaluing educators which is causing us a great deal of difficulty in recruitment and maintenance of people in the education field.

I think if there is one thing I could ask the Federal Government to do, it would be to help the public understand how critical it is to have qualified educators in every classroom, and to give them the respect that they deserve for the hard work that they do.

Ms. RIVERS. What do you think about no ingenuity, no creativity, satisfied with the status quo?

Mr. HICKOK. My Pennsylvania experience, 90 percent plus, educators, teachers, teachers' assistants, administrators are highly motivated, highly entrepreneurial, if you will, skilled, innovative and excited. The problem is in far too many cases, in far too many places we have a system that tends to blunt those very talents that made those people good in the classroom to begin with. In many way it makes them into bureaucrats as opposed to the vital educators that they once were and wanted to be.

Ms. RIVERS. Who would be the best determinant, in your mind, of what the local school districts need? Would it be the local school districts or the State or Federal Government?

Mr. HICKOK. I think it would be the citizens who are the clients of the school districts. Everything in Pennsylvania that we do is an attempt to find out what the people of Pennsylvania look to and need in education. We feel that our clients, in addition to those individuals, are all the citizens of Pennsylvania, and they are the ones who both should have more information so they can make wise decisions on what works and what doesn't, and have more authority over deciding what works and what doesn't.

Ms. RIVERS. Ms. Sclafani, who do you think is the best determinant in terms of what local school districts need?

Ms. SCLAFANI. Standards need to be set, and I am happy to have them set at the State level; but I think the decisions have to be made at the local schools. One of the reasons that we have gone

to the weighted per-pupil funding and saying to schools, you figure out how to create the programs that will enable your children to learn to their highest levels, is that we believe that that is the only place that it can happen, and if you engage people around the notion that they can design the programs that best meet the needs of their children, they will come up with programs that work.

Ms. RIVERS. Mr. Chairman, I would like to insert into the record an article from The Washington Post from March 27 of this year, 2000, entitled "As School Aid Is Relaxed, So Is the Response of Many States." I am particularly interested in quotes from Chairman Goodling of the Education and Labor Committee first where he says he was disappointed, but not entirely surprised at the limited interest in Ed-Flex requests, because he says, "If you don't have any ingenuity, if you don't have any creativity, if you are just satisfied with the status quo, it is much easier to do what the Federal Government wants."

Later when he was read accounts of State and local officials who said that they didn't need any increased flexibility, he says—sounded irritated, the article says—"To say you are getting all of the flexibility you need is nonsense. That must be all they want." thank you.

Chairman HOEKSTRA. Without objection, so ordered.
[The information referred to follows:]

[From the Washington Post, March 27, 2000]

AS SCHOOL AID IS RELAXED, SO IS RESPONSE OF MANY STATES

By KENNETH J. COOPER

A new law designed to ease restrictions on Federal school aid has not attracted nearly as much interest from the States as was expected when Congress approved the high-profile legislation a year ago. Passed with huge bipartisan majorities, the Education Flexibility Partnership Act was the first substantive legislation Congress enacted after the midterm election and was meant to highlight Republican interest in education as well as the party's emphasis on local control of schools.

Last April, President Clinton signed the bill, which was endorsed by every Governor and was described by Sen. James M. Jeffords (R-VT), chairman of the Health, Education, Labor and Pensions Committee, as offering "a deal no one can refuse."

But most States immediately affected by the law either aren't interested or haven't made plans to apply. So far only one State, North Carolina, has applied to the Education Department—although a dozen more indicate they intend to do so.

The "Ed-Flex" law, as it is commonly known, lets States relax rules for Federal education programs—for the entire State or for individual school districts—in exchange for adopting a statewide plan to lift the achievement of disadvantaged students served by the Title I remedial program. States are required to monitor test scores carefully and take "corrective action" if disadvantaged students do not perform better.

North Carolina, for instance, may seek to get around limits on how much Federal money can be spent to train teachers in reading, writing and other subjects besides science and mathematics. Pennsylvania intends to apply partly because the State wants to spread remedial education funds to rural schools with relatively few poor children, instead of spending Title I money only in schools with the biggest concentrations of disadvantaged students.

But among States not interested in Ed-Flex, most say they already have the slack needed to make Federal programs flexible enough to suit them. "I can get the flexibility I want under the current opportunities," said Peter McWalters, Rhode Island's education commissioner.

The lukewarm response from States has raised questions about the political appeal of the central Republican message on education and, more fundamentally, the presumed demand among States and local school districts for relief from burdensome Federal regulations. In the presidential campaign, presumptive GOP nominee and Texas Gov. George W. Bush on Friday called for giving States the kind of free-

dom from Federal regulation that his State has had in an Ed-Flex pilot project underway since 1995.

"States are not rushing to apply for Ed-Flex," said Michael Cohen, assistant secretary for elementary and secondary education. "It's not like local people are beating up on States, saying, 'Why haven't you applied for Ed-Flex?'"

Rep. William F. Goodling (R-Pa.), chairman of the House Committee on Education and the Workforce, said he was disappointed but not entirely surprised at the limited interest. "If you don't have any ingenuity, if you don't have any creativity, if you're just satisfied with the status quo, it's just much easier to do what the Federal Government says," said Goodling, a former school superintendent.

The Governors may have unanimously supported the legislation, but top State education officials have been less enthusiastic—and it is they who must submit applications to the Education Department.

"I think people are playing this flexibility stuff higher than it needs to be," said Stephen Barr, Federal liaison for Missouri's Education Department. "Everybody wants to blame bureaucracy, paperwork and everything else for inertia."

Under the new law, a State can receive the power to waive certain rules for seven Federal programs, including Title I, the largest. Besides producing an academic improvement plan, States have to agree to waive similar State rules and laws.

The Federal law extends to 38 States and the District the authority that a dozen States, including Maryland, have had in the pilot project. Participating States have used their new power most often to make academic programs funded by Title I—a new curriculum or reading lab, for instance—available not just to disadvantaged students but to an entire school where less than half the student body is impoverished.

Interviews with officials in eligible States indicate that 15 of them do not intend to apply and that 10 have no current plans to do so. That is about twice as many as the 12 that say they will definitely sign up.

Neither the District nor Virginia plans to seek the broad waiver authority. Maryland, along with Texas, is widely praised as a model program from the pilot project.

"We actually find the current legislation pretty flexible as it is," said Mary Elizabeth Beach, an assistant superintendent of D.C. schools.

Cynthia Cave, policy director for the Virginia Department of Education, said: "Up to now, we've applied for specific waivers and they've been approved, so there hasn't been a lot of pressure for us to go to Ed-Flex."

In contrast, North Carolina has been in a hurry to shake off Federal regulation.

"Our feeling is, decisions about North Carolina schools ought to be made down here in North Carolina," said Bill McGrady, the State's director of compensatory education. "Ed-Flex is something we wanted to go after, and go after quickly."

I just can't picture that other people aren't jumping on it."

Nancy Keenan, Montana's school superintendent, indicated that there is a simple reason her State hasn't applied. "I don't think we need to waive anything," she said.

Goodling sounded irritated about States reaching that conclusion. "To say you're getting all the flexibility you need—it's nonsense," he said. "It may be all that they want."

California and New York, citing a different reason, say they won't bother to apply because they're too busy implementing their own education reforms.

"Basically, districts are saying we don't need one more new program, not even if it streamlines what we're doing," said Delaine Eastin, California's superintendent of public instruction. "They're not hankering to do this."

And there are States that have decided it takes too much red tape to obtain the power to cut red tape. Florida, for instance, has chafed at having to produce detailed reports on the test scores of students attending every school that receives Title I funds. Several States indicated that their legislators would not diminish their own authority by granting State education officials the power to waive State laws.

Cohen, the assistant education secretary, acknowledged that the new law is stricter than the pilot project in requiring academic improvement plans for Title I. Despite the tepid response so far, Cohen said the Ed-Flex law sent a "symbolically important" message to States that Federal rules need not stand in the way of innovative, results-oriented reforms.

Kevin Noland, Kentucky's interim commissioner of education, said the law would allow the State to waive a rule that prevents districts from providing federally funded vocational education to sixth-graders. Currently, those funds cannot be used for students below seventh grade.

Goodling predicted that more States would be interested in pending legislation, originally dubbed "Super Ed-Flex," which would cover twice as many Federal education programs and permit States to combine separate funding streams. The Clinton administration and congressional Democrats have denounced that bill as creat-

ing block grants that would allow States to neglect the educational needs of disadvantaged students.

Chairman HOEKSTRA. A couple of questions or a question for the two of you. Secretary Hickok, I think you expressed concern about proposals to send Federal dollars to the local districts or the classrooms rather than the States. In your view, this would do more in the long run to nationalize education policy than anything Washington has done heretofore.

I would like to—that is one of the issues that we wrestle with in our other subcommittee. We have had people come in, and we have had a hearing in Chicago where the people in Chicago have said, you know, what we really need to do is we need to have Washington treat the school district of Chicago just like the State has treated Chicago, which is basically demanding it, and just giving us two checks, one for general operations and one for special education.

Your view on that, and then, Dr. Sclafani, if you would expand on what you were talking about as saying perhaps for the largest 50 school districts, the Federal Government ought to send the money directly to those 50 school districts, bypassing the State.

Mr. HICKOK. Yes, I think this is a view on which there is a lot of good commonsense disagreement.

There is a certain appeal, I think, and I certainly understand the appeal, to the notion that money goes directly to the school district for the delivery of services, cutting out the middleman, the State, for lack of a better word. I have a constitutional argument against that, and is that the States are the appropriate actors through which that funding ought to go. But on a more pragmatic management level, if districts look to Washington for both funding and direction on how that funding is being spent directly, then gradually that will lead to the kind of Washington-directed public education system in our public schools that, whether we like it or not, and maybe we do want this, will nationalize curriculum and educational programming.

So my argument is that it is very important for the reasons that I presented in my testimony that the States remain the critical actors. Now we have got to do a better job as States to make sure that we are not part of the problem, and I would agree with Representative Rivers a lot of States create a lot of burdens. A lot of school boards do so in terms of the contracts they negotiate. So you want to make sure that the States are not part of the problem. But States are uniquely situated to facilitate educational improvement within a State; to look at what is going on in Pennsylvania, using Federal and State money and just good old-fashioned bully pulpit to try to improve education through State leverage.

I disagree with the idea that money in our larger urban districts going from Washington directly to the urban district, there is a certain appeal to it, and having a couple of major urban districts in Pennsylvania that are having their problems, I sometimes feel I wish they would secede. I am saying that jokingly. But on a more serious note, you have to remember in those districts the vast majority of the money being spent to educate those kids is State taxpayer dollars and local taxpayer dollars, and so it seems to me there is a local and State fiduciary responsibility that needs to be

met, and I want to make sure that is allowed to take place rather than nationalizing Philadelphia or Pittsburgh because it has a certain management appeal to it.

Chairman HOEKSTRA. Doctor?

Ms. SCLAFANI. I think the State can set the standards for the curriculum. It can set standards for fiduciary responsibility. But having the dollars come directly to the school district, it simply gives us the additional funding with which to do that.

When I think about a block grant particularly, what I see is that it is not a nationalized curriculum, it is not a nationalized set of expectations. Each school, each school district is still responsible to its State for its accreditation, for its survival.

In a city like Houston, 70 percent of the dollars are paid by our local taxpayers, 23 percent by the State and 3 percent by the Federal Government. So the vast majority of our dollars are coming from our local taxpayers who elect our school board and are being well-served by their school board. So I think the arguments against it can be met with simply having requirements for fiduciary responsibility and accountability for student performance, which are the two areas that the State rightly must ensure for all of the school districts within its State.

Chairman HOEKSTRA. Thank you.

Mr. Holt.

Mr. HOLT. Thank you, Mr. Chairman.

I am trying to understand whether the problem that you are describing here is more a problem of restrictions on the funds or accountability and reporting that goes along with it. I guess maybe the best way I can get at this is to ask if each of you could describe several specific things that you would do but you can't do with the Federal funds?

Mr. HICKOK. I will be glad to try to respond to your first point. I think it is a little bit of both, frankly. At least that is what I am trying to get at in the sense that there are strings attached on limits, on discretion on how you use Federal funding, so it uses the decisionmaking on the local level to go to where the money is.

On the local aspects I don't think that we are opposed to make sure that we can report how money is spent to the Federal Government. I think we have an obligation to do that. What is onerous is the number of times that we have to fill out similar forms for different programs asking the same questions. So in other words, if there is a way to consolidate the gathering of this information so that a Gettysburg school district doesn't have to have almost a full-time employee doing nothing but filling out various reports, all of them important, but all of them asking the same question, there is a way that you can get around that problem that makes sense.

And secondly, if it is reporting a function that focuses on results and not just data, spending and clients and things like that, I guess one thing that I would like to see the Federal Government do is pick up on something that we have started in Pennsylvania, and it goes back, again, to a combination of accessing money and forms. We have the e-grant. It is a totally Web-based application for all of our State grants. And any school district in Pennsylvania doesn't have to have a sophisticated grants writer. You can look at

examples of successful grants, and we have boilerplate language, so almost anyone can follow the grant through the approval process.

The grants are a very Byzantine process, and we have tried to make it user-friendly. With Federal grants, it is a tough road to hoe. It is tough enough to get the money; it is really tough when it takes 26 weeks or 500 signatures to get it approved.

If there is a way that Federal Government could use the e-grant as a model, I think that is basically a winner for everybody. I also think that it would be a winner for the Federal Government because it would be a state-of-the-art way to do things.

Mr. HOLT. Dr. Sclafani.

Ms. SCLAFANI. Three examples that have come up in the last month, we used to be able under Title II to provide training in the summer for our math teachers, but also to provide kits that had all of the manipulatives and the materials that they would need to go back and teach this to their children. We are no longer allowed to fund the kits. We can do the training and the stipends, but not the kits anymore.

A second example, we met with some local community leaders—

Mr. HOLT. And that is because—

Ms. SCLAFANI. They prohibit the use of funds for that purpose. They prohibit the use of funds for food, and we understand that. We don't want taxpayer dollars to buy a cookie for a teacher, although it makes a big difference to a teacher going through a long day of in-service that somebody cared enough to provide a cookie. But in any case, we will deal with that with our local funds.

The second example is that a group came to us saying that they had seen materials that had been developed by Anheuser-Busch to combat alcoholism and to get students to recognize that they should not be drinking at early ages at all, and that they needed to leave that out until they were adults.

We said, sounds great, we would like to do it, good materials. We sent them to our people in a safe and drug-free schools program, and they said if we were to use anything produced in collaboration with an alcohol purveyor or a tobacco purveyor, we will jeopardize our grant because we agree in our grant for safe and drug-free schools that we will not use any materials produced by anyone who is a seller of alcohol or drugs. So that went out the window.

It seemed like a perfectly reasonable opportunity for us. Certainly we were not going to jeopardize 2.4 million, and we had to go back to the community leaders and say, we are sorry, we are not able to do that as part of the regulations for our Federal funds.

As a third example—I have forgotten. They are similar little things where you want to say, why is this important to anybody, and yet we are prohibited from doing them.

Mr. HOLT. I have one other question, if I may. Let me just comment on those two answers.

Mr. Hickok, I can understand why an administrator, a superintendent, those in management would be concerned about the inefficiencies and the expense of having to have an entire grant writer devoted or a recordkeeper devoted to that, but that has little to do with education and creativity at the teacher's level. We certainly should look for electronic filing procedures and ways to streamline

reporting and all of that, but what we are talking about today is whether we are fundamentally affecting the educational system.

And, Dr. Sclafani, the examples you give I can see would also be annoying to a teacher, but hardly rise to the level, I think, of a Federal issue. What we were talking about here in the Federal Government was making sure that major needs are met that haven't been met. That is why Title I was created, and historically I think it is undeniable that there were needs that were not being met in various cities and States around the country, and the Federal Government had to step in. Now, we can talk about how efficiently it worked or whether it worked at all, but if we are going to have those programs, it seems to me that we have to have some level of accountability.

Ms. SCLAFANI. Absolutely. There is no disagreement on the issue of accountability at all. We believe that ought to be the basis for continued grants. We believe very strongly that the dollars that are provided by the Federal Government have enabled us to improve the quality of instruction to our children. That is the basic bottom-line issue, and that is why I was suggesting earlier that if they could simply give us the dollars, allow them to use them as the priorities within our district dictate, and hold us accountable for the results for every child—and as you probably know, in Texas we disaggregate all of our data all of the time. So we are looking at how our ESL students do as compared to our non-ESL students, how our economically disadvantaged students compared to others, and how each ethnic group does in comparison with each other.

So we are willing to lay all of the data out there and say we will be accountable school by school and districtwide for the quality of instruction that we provide for our children. Don't ask us to spend the time on the smaller detailed regulations. And I mentioned at the beginning of my talk about the two that really take a lot of time and efforts, the maintenance of effort and comparability. We will take care of all of our children, and we will see that in the results, but rather than having to prove those two.

Mr. HOLT. My time has expired. Be careful what you are asking for. If you are asking for block grants, what you might get is a block grant that decreases by 10 percent next year and 10 percent the following year, and you will end up with less to work with.

Mr. HICKOK. If I can respond briefly, it seems to me you make my point, and that is one of the reasons that we are so frustrated at the State and local level, we spend an inordinate amount of time on forms and regulations and surveys and studies which have nothing to do with education. If we can spend more time on education and less time on those things, through electronic analysis or something else, we would be better off. But the reason that you hear folks in the States saying, please free us up, we would like to be freed up to use resources to educate kids, not to fill out forms.

Chairman HOEKSTRA. I think that is what we have heard a lot as we have gone around the country, get us from focusing on process and paperwork, and allow us to have a dialogue with Washington or with the State about results, which is really the model. And we can talk, I am sure, over the next couple of years about the relationship with the large city schools in Washington, but that is really what has happened in Chicago, where the dialogue between

the Chicago Public Schools in Illinois went from process to one about funding and accountability. That discussion is about how much money you are getting for special ed and the general operating funds for the schools, and as soon as that discussion is over, the rest of the 11 months and 29 days and 23 hours is focused on talking about the results that we get for those dollars. I think that is directly where we need and want to go.

Ms. RIVERS.

Ms. RIVERS. I understand from the perspective of both the State and the local government the best way to get these Federal funds is unencumbered, just cash. That is not likely to happen, and I have to ask whether you would really want to—what I would like to ask you, there are other ways of approaching this problem. One is for the dollars to come unencumbered, which I don't believe will happen, and the other is for the Federal Government to get out of the education business, period; to say, we are going to leave it to the States and the localities to collect and spend their money any way that they wish.

If we did that, do you feel comfortable that your States and municipalities will indeed step up and pass the dollars to retain the programs that you are currently giving your children at the same rate if there is no Federal money?

Mr. HICKOK. If there is no Federal money for education, and that money used to go for education, it is going to go back to education.

Ms. RIVERS. It is not taken from the taxpayers.

Mr. HICKOK. I tend to have a whole lot more confidence in the people to govern their schools than a lot of people do, at least a lot of people in this town. I think the States get a bad rap, and that is not to say that there are not mistakes and inefficiency out there, but I lay down the working record at least of Pennsylvania, certainly of any State, and certainly the Federal Government with regard to education. I think the citizens of Pennsylvania place a high priority—

Ms. RIVERS. You are not having the national problem of not being able to pass millages?

Mr. HICKOK. I am not saying that we don't have a political problem on tax increases and things like that, but part of that is driven by additional costs that are driven by Federal regulations we have no control over. Special education is an example.

One last comment, but I am not one of those who argues that there is no Federal role for education.

Ms. RIVERS. Dr. Sclafani, would your community step up and replace the dollars?

Ms. SCLAFANI. Not all of them, and for a couple of reasons, I think. One of the challenges that urban districts face is that in many cases the people who live in the city for the most part have no children in the public schools. We are down to probably 15 percent of our citizens that—

Ms. RIVERS. That is true everywhere.

Ms. SCLAFANI. Exactly. It is sometimes more difficult, particularly when your children don't look much like your citizens, to convince them this is in their long-term best interests. So we believe that the Federal Government dollars help us ensure that we are providing equity to all children.

I really was not asking that we stop the Federal dollars. I was simply saying if Title I could come to us for Title I purposes and the others could be grouped together so we could move moneys from one place to another within them, that that would save us a lot of time and effort.

Ms. RIVERS. I understand that you were not saying that, and most people are not. What they are saying is we would like the cash, but without the qualifications that the Federal Government is asking for. I am suggesting that there is another way to do it, and that is to leave the burden at the local and State levels to fund the programs.

My last question, do you believe that it is in the best interests of the Nation for us to step away from some of the educational mandates that exist? Do you think that we should eliminate the Special Education Act and the obligation under it, eliminate Title I and the obligations under it, eliminate the Child Nutrition Program and the obligations under it, eliminate the Education for Homeless Children Act and the obligations under it, and any environmental mandates that apply to local school districts? Is that in our best interests?

Ms. SCLAFANI. I don't think that it is in our best interests to abandon them. I think it is simply a matter of working more collaboratively to reduce the amount of accounting that has to be done in order to ensure that people are complying with the regulation, as opposed to doing the intent of the program, which is to educate children, to provide education and the additional services to the children of the homeless, and to ensure that children do have the nutrition necessary.

We worry about our children in the summer because even with the opportunities for citywide programs, we know that our children don't eat dinner. They each breakfast and lunch with us, and they don't eat dinner. We certainly understand the need for those funds and for those programs. It is just if we could work together more collaboratively so we could better serve children.

Ms. RIVERS. Do you think it is in our best interests to eliminate those programs, Mr. Hickok?

Mr. HICKOK. I think those are national priorities that have long been in place and need to still be in place. The goal is to make sure that those priorities are met, not necessarily those programs are funded. If there are others way to ensure that those priorities are achieved, either through Federal, State or local policy, what matters is the results, not the programs.

Ms. RIVERS. Thank you.

Chairman HOEKSTRA. Thank you very much to our witnesses for the information that you have provided today. We appreciate it. That will help us as we move forward in what I think will be a continued and very vigorous and energetic debate. Thank you very much. And with that, the Task Force will be adjourned.

[Whereupon, at 3:30 p.m., the Task Force was adjourned.]